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MENTS TO FEDERAL FARM LOAN ACT AND
FEDERAL RESERVE ACT

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
SIXTY-SEVENTH CONGRESS
FIRST SESSION
ON
S. 2253 and S. 2263

AS TO AMEND SUBDIVISION 7, SECTION 12, OF THE ACT
APPROVED JULY 17, 1916, KNOWN AS THE FEDERAL FARM
LOAN ACT, AND TO AMEND THE FEDERAL RESERVE ACT
APPROVED DECEMBER 23, 1913

JULY 18 AND 19, 1921

Printed for the use of the Committee on Banking and Currency



WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

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AMENDMENTS TO FEDERAL FARM LOAN ACT AND FEDERAL RESERVE ACT.

MONDAY, JULY 18, 1921.

UNITED STATES SENATE,
SUBCOMMITTEE OF COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to the call, at 10 o'clock a. m., in the room of the Committee on Banking and Currency, Senate Office Building, Senator Joseph S. Frelinghuysen presiding.

Present: Senators Frelinghuysen (chairman), Shortridge, and Glass.

Present, also, Senators Kellogg and Kenyon, and others.

The committee having under consideration S. 2253 and S. 2263, which are here printed in full as follows:

[S. 2253, Sixty-seventh Congress, first session.]

A BILL To amend subdivision 7, section 12, of the act approved July 17, 1916, known as the Federal farm loan act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subdivision 7 of section 12 of the act approved July 17, 1916, known as the Federal farm loan act, be, and the same is hereby, amended so as to read as follows:

"Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of \$25,000, nor shall any loan be for a less sum than \$100."

[S. 2263, Sixty-seventh Congress, first session.]

A BILL To amend the Federal reserve act approved December 23, 1913.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first paragraph of section 10 of the Federal reserve act approved December 23, 1913, is amended to read as follows:

"Sec. 10. A Federal Reserve Board is hereby created which shall consist of eight members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and six members, one of whom shall be a representative of the agricultural interests appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, agricultural, industrial, and geographical divisions of the country. The six members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly, together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex-officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board."

The CHAIRMAN. Senator, which bill do you wish to take up first?
Senator KENYON. There are three bills in which we are particularly interested. One is to increase the maximum loan by

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Federal farm loan banks to \$25,000. That is No. 1. The second proposition, covered by two bills, is to place on the Federal Reserve Board a representative of agriculture.

The bill I introduced provided for the placing of the Secretary of Agriculture on the board, and Senator Kellogg has introduced a bill providing for the placing on the board of a representative of agriculture. Those are the three bills.

The CHAIRMAN. Suppose we hear first what is to be said on Senate bill 2253, which increases the maximum loan from \$10,000 to \$25,000, under the Federal farm loan act. Do you wish to make any statement regarding it?

**STATEMENT OF HON. WILLIAM S. KENYON, UNITED STATES,
SENATOR FROM IOWA.**

Senator KENYON. I will make just this statement, before calling witnesses. The witnesses will be very brief.

Out in the Middle West country we find that the limit of \$10,000 is not satisfactory. There is a great demand for larger loans. That limit was apparently all right when lands were of smaller value and the cost of farming operations had not reached the point that they have now. \$25,000 now in purchasing power would hardly be any more than \$10,000 in the days when the law was passed.

There is a very general demand from the farmers in the West—I do not know how it is in the South—that that change be made. There are a number of gentlemen here. Mr. Howard is president of the American Farm Bureau Federation, an institution that has at least a million and a half farmers connected with it, and I will ask him to say a word. Mr. Howard has been traveling a great deal on this Great Lakes proposition to the ocean. He is rather tired but he is here to show his interest in the matter. Will you say a word, Mr. Howard, as to the need and demand for that change?

**STATEMENT OF MR. J. R. HOWARD, PRESIDENT AMERICAN
FARM BUREAU FEDERATION.**

The CHAIRMAN. State your name to the reporter.

Mr. HOWARD. J. R. Howard, president American Farm Bureau Federation.

There is no doubt but that the farms throughout the mid-west group of States, which are the largest agricultural producing States, would be very much benefited by an increase in the maximum of the Federal land bank loan. I have reference particularly to such States as Ohio, Indiana, Illinois, Iowa, Missouri, Minnesota, Kansas, and Nebraska. I would also like to include some of the range States where an immense acreage is necessary for the raising of live stock and a great deal of capital is required in the handling of live stock in that group of States.

As Senator Kenyon has told you, there might have been a time when \$10,000 would have been an adequate loan in those great producing States; but it is not at this time. As he told you, I am just in from a long trip and have not with me absolute data, not having expected to be present at this hearing.

I desire, however, to call your attention to the fact that the average farms of those States will run in the neighborhood of 170 or 180 acres; that the farm which is most economical to operate is perhaps 200 to 240 acres, and that the time has come when we must aim at economy of operation. The man must have a credit which will enable him to purchase an amount of land which will enable him to function in the operation of that land, to his greatest advantage.

Our American Farm Bureau has in those States a very large membership, running as high as 100,000 in three or four of the States, and I think above 50,000 in all of them. Our resolutions as adopted at our State and National conventions during the past two years have invariably asked the increase of the maximum from \$10,000 to \$25,000.

I think that brief statement is all the time I care to take, since those are present who can give you more detailed information than I am able to give.

The CHAIRMAN. Mr. Howard, one question. Why do you make such a large increase in the loan, from \$10,000 to \$25,000?

Mr. HOWARD. Mr. Chairman, there had to be a limit somewhere. Suppose a renter who had accumulated some means were to buy a farm which he could operate at the greatest efficiency. That farm would likely be 200 to 240 acres, and he ought to be allowed a credit which will enable him to get in on such an investment as that. I very much doubt if the maximum loan would be called for in very many cases, certainly not in every case. The probability is that the range of loans would run from \$10,000 up to the \$25,000. There had to be a figure put somewhere, Senator.

Senator KENYON. Mr. Silver, will you say a word, and then proceed yourself to call on the other witnesses?

STATEMENT OF MR. GRAY SILVER, WASHINGTON REPRESENTATIVE AMERICAN FARM BUREAU FEDERATION.

The CHAIRMAN. State your name to the reporter.

Mr. SILVER. Gray Silver, a farmer from West Virginia, speaking for the American Farm Bureau Federation as its Washington representative.

I have a word or two to say to call your attention to the fact that agriculture is not financed. We must have other opportunities of approaching the great national reservoir of moneys and credits. The farm loan bank, of which we are so proud, is splendid as far as it goes; it just does not go far enough.

Under the present maximum loan of \$10,000 the average loan is \$2,839. As a prediction or a guess I would say that if you increase the maximum to the amount asked, namely, \$25,000, that it will not be larger than twice that.

It is not hard at all for anyone to understand that the average loan, through this channel, of around \$5,000, or a little over, is not a large loan for the average American farmer. To think of limiting him to amounts that will average less than that would be a most unhappy thought. He will not be able to carry on unless credits are forthcoming; he must have credits; he must have an additional maximum. The question involved is that of adequately financing agriculture, the largest and most essential business.

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An announcement from the Census Bureau this morning shows there are some \$4,000,000,000 of farm mortgage loans on land in the United States. Of course, lots of this money is loaned to others than banking agencies, such as fathers who are financing sons, or fathers-in-law doing the same thing. That money will remain, and in addition if this money were released by being put on an amortization plan, it would help the country banks which have jeopardized their welfare by extending loans when markets were open and prices good and with the turn of offices are now frozen. It is not a selfish thing for the farmer, alone.

In this case the country banks are needing relief as badly as the farmer needs relief, and this is one method by which the farmer can carry on and not take bankruptcy. The farmer is not disposed to take bankruptcy. He never has been doing it. He carries on and pays out. But if he is forced, under the conditions that now exist, to take bankruptcy, what happens to the bank that is financing him?

So we are asking that the maximum loan be allowed that will permit the banks to carry on and amortize his loan, and in that way pay it off, so that he can take care of himself and take care of his country bank.

I believe that is all I have to say at this time, and I am going to ask Mr. Corey to make a full presentation to you on that subject.

STATEMENT OF MR. M. L. COREY, ATTORNEY, FEDERAL LAND BANK OF OMAHA.

The CHAIRMAN. State your name to the reporter.

Mr. COREY. M. L. Corey; attorney for the Federal Land Bank of Omaha.

At the outset I want to present and file with the committee the argument which was compiled by all of the Federal land bank presidents in 1919 in favor of the increase of the loan limit from \$10,000 to \$25,000. While the article is short I shall merely state the outstanding points, and later file the article with you.

By way of summary the points they suggest are as follows:

1. The Federal farm loan act should be made of universal application, so that every actual farmer may be permitted to enjoy its benefits.

There has been a disposition in congressional debates to suggest that the purpose of the enactment of the Federal farm loan act was to take care of the poor farmer who could not get credit elsewhere.

Whatever may have been the purpose of Congress in passing this law, in actual operation it is proven that the Federal farm loan act is a necessity alike to the middle-class fellow as it is to the poor farmer.

If the Federal farm-loan act had restricted loans strictly to the poor farmers of the country, it could not have made loans at the low rate which has prevailed during the period of the operation of the act. And if the system is to continue, there is not any reason why every actual farmer, every man who actually holds the plow handles and operates his own farm, should not be permitted to become a part of the system.

It is just as important to him that he get a low interest rate, it is just as important that he should amortize his loan over a long period of years, and it is just as important that the middle-class farmers

enjoy the benefit of the Federal farm-loan system as it is the so-called poor class of farmers could enjoy it.

The farm unit in many sections of the United States is from 160 to 240 acres, which land is valued at an average of \$200 per acre.

That is not a theoretical proposition. Our agricultural colleges in the middle West tell us that the most economical farm unit is a unit from 200 to 240 acres, and that it will bring the greatest return on the capital invested and the greatest return on the labor or man power that is used on the farm.

Aside from the theory of the thing, the truth of the matter is that throughout the middle West this is the average-size unit in the corn belt, and the capital invested in those farms runs all the way from \$40,000 to \$50,000.

The CHAIRMAN. How do you get that average of \$200 per acre?

Mr. COREY. I will say that the Census reports of 1920, in the State of Iowa, show an average value of all the lands in the State of Iowa per acre of \$227.09. That is including the poor as well as the better lands of the State.

The CHAIRMAN. Is that average only in Iowa?

Mr. COREY. Oh, no. In the State of Illinois the average is \$231.98; in Indiana it is \$125.98; in the State of Minnesota, \$109.23; in California, \$109.67; and in Connecticut, \$100.20.

It must be recognized that in States like Indiana and Minnesota, while the general average is considerably below \$200, there are many needy and deserving farmers who do have lands that at least equal or are greater than the average value for the States of Illinois and Iowa.

3. The adequate financing for this type of unit, which is the high-priced land section, will therefore require that the maximum loan limit should be increased to \$25,000.

4. In the ranching districts of the United States the capital outlay required for a properly balanced ranch unit is substantially the same as in the more highly developed sections described above where more intensive farming is practiced, for while the cost of land per acre is less, the acreage must necessarily be larger in order to make a profitable ranch unit.

I think it is common knowledge that there is not any class in America so peculiarly distressed as are the ranchmen of the Middle West. The Farm Loan Bank of Omaha, for example, with scores and scores of ranchmen desiring to make loans, is absolutely prevented from making any loans whatever upon desirable ranch units. We can take care of the little sand hill fellows, but a well-balanced unit of a proper amount of hay land and grazing land, we are absolutely unable to take care of such men in that part of the section.

The Federal land banks must have a large proportion of the business in the most highly developed sections of the country where the profits in the loan business are greatest, so that they can make the loans in the poorer sections at the present low rate.

Loans must be made upon a large proportion of the most highly developed lands, so that capital may be attracted to invest in these securities.

This statement was concurred in, as I have heretofore stated, by all of the presidents of the 12 Federal land banks of the United States when they convened in Washington in November, 1919.

The Federal Farm Loan Board in two of its annual reports have recommended an increase of the loan limit from \$10,000 to \$25,000, and subsequent to the time when the report and recommendations were made by the convention of land-bank presidents.

I call your attention to these facts. The most distressed farmer in the Middle West to-day is not the poor farmer. The most distressed farmer in the Middle West to-day is the average farmer. You would be surprised, perhaps, to learn that there are many, many owners of quarter sections and half sections of land in the States of Iowa and Nebraska who have not any credit with local merchants, who can not borrow a dollar from the country bank, and whose sole means of support is the little cream and egg checks that comes in from week to week.

The fellow who is most distressed, I say, is the middle-class fellow, and for this reason. The man who owns the quarter section or a half section of land had almost unlimited credit in the country bank at the time of the general inflation of things. His paper is in that bank to-day. The bank relied and he relied upon a fair maintenance of commodity prices and a fair liquidation of the debt in the fall of last year.

We know what happened. The fearful tumble in commodity prices made it impossible for the farmer to liquidate his debts at the country bank. There is only one salvation for the farm, and through the farmer for the country bank and the country merchant. The farmer simply can not continue to have the great burden of debts that he has to-day at the country bank. From any possible, practical or economical standpoint he can not continue to carry short term paper at the country bank and pay the 10 per cent that the average farmer is paying in the Middle West to-day.

His only salvation is in the amortization of that debt over a long period of years, relying upon the general swing of things in the course of years to put the farm on an even plane with every other class and interest in the country.

Mr. LOBDELL. Would not a \$10,000 loan, as a rule, liquidate him at the country bank?

Mr. COREY. The average one. For many of them it would, and for many of them it would not. It would certainly not take care, Judge, of the ranchers out West.

Senator GLASS. Mr. Corey, why do the people of the Middle Western States permit a rate of 10 per cent in the banks?

Mr. COREY. They permit it because it is a situation where the rate is not important but the actual getting of the capital is. Possibly I ought not to say that the average rate is 10 per cent, but I think I am safe in saying that the average rate charged in the Middle West to-day is in excess of 8 per cent upon the farms.

Senator KENYON. They are willing to pay practically anything, are they not?

Mr. COREY. It is a question of getting the money rather than the size of the rate.

Senator GLASS. I can understand that a man might be willing to pay almost anything, but we have usury laws to prevent undue exaction, and I was wondering why you did not have that.

Mr. COREY. We have usury laws.

Senator KENYON. Mr. Corey modified his statement, and said that the average interest was in excess of 8 per cent.

Mr. COREY. I corrected my statement that the average was 10 per cent.

Senator SHORTRIDGE. The banks take advantage of the situation?

Mr. COREY. I would not say that. There are many of the country banks that are paying excessive rates for rediscount; they are not making any excessive profits.

Senator KENYON. Throughout the Middle West is it not true that most of the country banks are just hanging on by their eyebrows? May be you would prefer not to make that statement.

Senator GLASS. If they are exacting 10 per cent interest and are getting their rediscounts at 6 per cent, they ought to be making a lot of money.

Mr. COREY. Senator, they are not all getting rediscounts at 6 per cent.

Senator GLASS. Oh yes, they are; that is the rate.

Mr. COREY. The State banks that are—

Senator GLASS. I do not know about the State banks. I am talking about those in the Federal reserve system.

Mr. COREY. Pretty generally the banks are not in the Federal reserve system. They are compelled to rediscount their paper with the city bank, and the rate they pay is dependent upon what the city bank charges them.

Senator GLASS. The moral of that is that they ought to get into the Federal reserve system.

Mr. COREY. That is doubtless true.

If my proposition is right, that the only salvation for the farmer is the amortization of his loan over a long period of years, where is he going to get this money? If he wants a short-term loan he must borrow of the farm mortgage companies. I would hesitate to say, because I don't know, the general average of the rates that are being charged by the farm mortgage interests to-day; but there are numerous instances where they are getting all the way from 8 to 10 per cent. I think it is pretty safe to say that in these periods of distressed conditions the average rate that is being charged by the private farm mortgage interests is not very far from 8 per cent per annum counting all the commission charges, etc.

The CHAIRMAN. Let me ask you a question. What is the nature of this paper? Is it indorsed paper and for how long is the loan in the country bank?

Mr. COREY. You are referring to the short-time loans?

The CHAIRMAN. Yes, the short-time loan.

Mr. COREY. I think scarcely any of that paper is in excess of six months.

The CHAIRMAN. Is it to finance the crop?

Mr. COREY. Most of these loans were incurred a year ago last spring to finance the farmer over the crop-growing period.

Mr. LOBDELL. They represent a loss, do they not, either in his cattle or grain operations?

Mr. COREY. Yes, I think they do.

Mr. LOBDELL. He has exhausted his security.

Mr. COREY. Yes.

Mr. LOBDELL. And it is not eligible for rediscount now.

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Mr. COREY. Yes. I think the judge has answered that.

The CHAIRMAN. And it would practically mean a protest if it was called?

Mr. COREY. Yes, sir. If he borrows from the farm mortgage company he has got to pay an excessive rate, and he has got to make his loan for a short period. There are only two agencies through which he might borrow. He could borrow through the joint stock land banks over a long period of years, but as you know the joint stock land banks are making practically no loans because of their inability to sell the 5 per cent bonds upon this market.

His only agency is through the Federal land bank. The Federal land bank as you know offers him a 6 per cent rate. They will amortize his loan over a 33-year period; they will permit him to share in the profits of the system, and it is the one agency that offers him relief at this time.

Whatever the conception may have been of Congress at the time this bill was enacted I think we all ought to be agreed that the system is the sort of system which ought to be made of universal application. We have not any sympathy for the land speculators, we have not any sympathy with a man who desires to borrow money for any purpose other than putting it back into the actual operation of the farm.

But we do believe that the system ought to be made broad enough that every actual farmer who is operating his own farm, ought to be permitted to borrow 50 per cent of the value of the farm upon that land. There was not any reason why the Federal reserve system should extend the benefits of the system, and deny it to other banks. There is no reason why every actual farmer should not be permitted to become a part of this system.

If the big farmer, and by that I do not mean the great big operator, but the operator of the ordinary standard unit, is permitted to come into the system, he offers a security that will give the most profit to the operation of the banks, and under the cooperation plan will make it possible that the poor farmers as well as the middle class farmers will enjoy the lowest possible rate.

The question was asked a moment ago as to what determines or what should determine the loan limit. It is pretty hard to fix a standard. There is some doubt as to whether the little farmer, without regard to the size of the unit, should not be permitted to come in under the system.

But this is a certainty, that if a man is operating an ordinary actual standard farm or ranch unit, devoting his life to agriculture, there is not any doubt that that sort of man ought to enjoy the benefits of the system. Just by way of conclusion I want to quote the figures of a referendum which was conducted by the Farm Bureau Federation upon this particular question some time ago. I will offer this for the record, showing a total vote of 77,565 for the increase as against 16,060 against the increase.

(The detail of the referendum is here printed in full, as follows:)

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Total result of questionnaire ballot taken by farm bureaus in the various States on the question of increasing the limit on Federal land bank mortgage loans from \$10,000 to \$25,000.

State.	Yes.	No.	State.	Yes.	No.
Arizona.....	4,185	.....	New York.....	2,232	1,657
California.....	1,434	639	North Carolina.....	74	27
Colorado.....	686	80	North Dakota.....	1,919	364
Delaware.....	24	.....	Ohio.....	3,376	1,084
Florida.....	198	62	Oregon.....	255	192
Georgia.....	14	4	Oklahoma.....	8	14
Iowa.....	22,969	3,654	South Dakota.....	3,376	1,130
Idaho.....	240	183	Texas.....	1,236	927
Indiana.....	4,192	3,580	Virginia.....	45	.....
Kansas.....	260	75	Utah.....	1,124	315
Kentucky.....	2,246	399	Washington.....	270	43
Illinois.....	3,030	118	Wisconsin.....	869	232
Massachusetts.....	21	22	West Virginia.....	75	39
Michigan.....	2,176	416	Wyoming.....	49	144
Montana.....	519	40	Vermont.....	265	121
Minnesota.....	17,561	3,404	Nevada.....	19	.....
Missouri.....	2,697	336	Total vote.....	77,565	16,060
Nebraska.....	2,685	320			
New Hampshire.....	271	31			

I also call your attention to the census figures of 1920, showing that the total value of farm lands, according to the census reports on January 1, 1920, was \$67,795,965,384. On April 15, 1910, just shortly before the passage of the Federal farm loan act the total farm value was \$34,801,125,697, or an increase of 94.8 per cent.

Senator KENYON. What are those periods?

Mr. COREY. 1910 and 1920, an increase of 94.8 per cent.

I think that is all, and I thank you.

The CHAIRMAN. Have you any other witness, Senator?

Senator KENYON. I think not on this bill; we have some witnesses on the other bills.

The CHAIRMAN. Judge Lobdell, do you wish to say anything?

Mr. LOBDELL. I am at your service.

The CHAIRMAN. Have you any statement to make regarding the advisability of this legislation?

Mr. LOBDELL. May I ask Mr. Corey a question?

The CHAIRMAN. Yes.

Mr. LOBDELL. Mr. Corey, you are intimately connected with the operation of the Federal land bank at Omaha?

Mr. COREY. Yes.

Mr. LOBDELL. Is that bank at present able to meet the calls on it for loans less than \$10,000?

Mr. COREY. No. We were compelled to allot it among associations in accordance with the volume of business they had done heretofore.

Senator GLASS. Right there it occurred to me to ask Mr. Corey if that was the state of the case, and if it is will not every large loan, say of \$25,000, to that extent make it impossible for your bank, or any other bank similarly situated, to accommodate the great body of borrowers?

Mr. COREY. Yes; in a measure I would say so, but this occurs to me, that in view of the fact that the limited amount of funds must be allotted anyway, that the banks ought to be put in position to take care of the most needy and worthy borrowers, the actual farmers, without regard to the amount they need.

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If a man needs \$15,000 with which he can pay his debts, and that will bring the most relief to him and to the country bank, we ought to prefer him in some instances over the smaller borrower, because it is unquestionably true that the most embarrassed farmers to-day are the farmers who own these standard units; they are most heavily involved in debt, and the necessity for amortizing loans is the greatest with that class of people.

Senator GLASS. Do you think that the larger borrowers ought to exhaust the funds of the bank and thereby make it impossible for the great body of small borrowers to utilize the system?

Mr. COREY. I think it ought to be possible for the banks themselves to determine what particular loans they shall make. I recognize that if the increase is enacted it can not be made available to any great number of farmers at this time.

The CHAIRMAN. I would like to ask this question. I am not as well informed as I should be. But owing to the present condition in the Middle West is it not true that the banks are carrying a great deal of insolvent paper?

Mr. COREY. You refer, of course, to the ordinary commercial banks?

Senator GLASS. Yes.

Mr. COREY. I would say they are carrying a great deal of slow paper. I think generally the paper in the country banks is good if the farmer is given the opportunity—

The CHAIRMAN. To work it out?

Mr. COREY. To work it out. That is what he has got to do.

The CHAIRMAN. Is this increase of the maximum loan a method whereby you are going to cover that insolvency by allowing the farmer to increase his loan and pay this paper; is that your idea?

Mr. COREY. Of course, if he is insolvent we can not make a loan great enough for him to take up his debts.

The CHAIRMAN. He might be insolvent, he might not be able to meet a note, and yet he might have enough land, if he could increase his loan to pay off his note, practically a mortgage, by increasing his borrowing capacity. Is that your idea? I may be groping in the dark. Is that one of the objects that you are trying to attain?

Mr. COREY. This condition has arisen since we first presented the matter to the committee in 1919. Yes; I would say that one of our objects is to enable the farmer and the bank to get rid of this slow paper and enable the farmer to extend the payment of his debt over a long period of years.

The CHAIRMAN. Then the enactment of this legislation will practically relieve the country banks to that extent because it will take slow paper, as you call it, out of the country bank and transfer it into the farm loan bank, will it not?

Mr. COREY. Yes.

The CHAIRMAN. And that is the object you are trying to attain, is it?

Mr. COREY. That is one of them.

Senator GLASS. I do not understand that the farm loan bank is authorized to make a loan to pay a debt.

The CHAIRMAN. No.

Senator GLASS. It is authorized to make a loan only for productive purposes.

Mr. COREY. It depends upon why the debt was created, Senator. We are authorized to make loans to take up existing indebtedness where it was created for an agricultural purpose.

Mr. LOBDELL. If it was created for the purpose for which the loan could originally have been made?

Mr. COREY. Yes.

Mr. LOBDELL. You recall, Mr. Corey, do you not, that the Farm Loan Board recommended to Congress, and drafted a bill authorizing the making of loans to liquidate indebtedness generally, and that that was rejected by Congress?

Mr. COREY. Yes. Did I misstate that, Judge?

Mr. LOBDELL. No; I think not—for any purpose for which it might originally have been made.

Mr. COREY. Yes.

Mr. LOBDELL. And those purposes are limited as indicated?

Mr. COREY. Yes.

The CHAIRMAN. Have you finished, Mr. Corey?

Mr. COREY. Yes.

(The brief or argument referred to in the above statement is here printed in full, as follows:)

\$25,000 SHOULD BE MAXIMUM LOAN LIMIT OF THE FEDERAL LAND BANKS.

[Published by authority of the convention of Federal Land Bank presidents held at Washington, D. C., Nov. 10-14, 1919.]

FEDERAL LAND BANK PRESIDENTS ATTENDING WASHINGTON CONFERENCE.

District No. 1, Springfield, Mass.; E. H. Thomsen, president: Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey.

District No. 2, Baltimore, Md.; Vulasko Vaiden, president: Pennsylvania, West Virginia, Virginia, Delaware, Maryland, District of Columbia.

District No. 3, Columbia, S. C.; D. A. Houston, president: North Carolina, South Carolina, Georgia, Florida.

District No. 4, Louisville, Ky.; Walter Howell, president: Tennessee, Kentucky, Indiana, Ohio.

District No. 5, New Orleans, La.; T. F. Davis, president: Louisiana, Mississippi, Alabama.

District No. 6, St. Louis, Mo.; Herman W. Danforth, president: Illinois, Missouri, Arkansas.

District No. 7, St. Paul, Minn.; E. G. Quamme, president: North Dakota, Minnesota, Wisconsin, Michigan.

District No. 8, Omaha, Nebr.; D. P. Hogan, president: South Dakota, Wyoming, Nebraska, Iowa.

District No. 9, Wichita, Kans.; Milas Lasater, president: Colorado, New Mexico, Kansas, Oklahoma.

District No. 10, Houston, Tex.; M. H. Gossett, president: Texas.

District No. 11, Berkeley, Calif.; W. H. Joyce, president: California, Nevada, Utah, Arizona.

District No. 12, Spokane, Wash.; D. G. O'Shea, president: Washington, Montana, Oregon, Idaho.

PARAGRAPH 7, OF SECTION 12, OF THE FEDERAL FARM LOAN ACT, SHOULD BE AMENDED TO PROVIDE FOR THE INCREASE OF THE MAXIMUM LOAN LIMIT.

SUMMARY OF ARGUMENT.

1. The Federal farm loan act should be made of universal application, so that every actual farmer may be permitted to enjoy its benefits.

2. The farm unit in many sections of the United States is from 160 to 240 acres, which land is valued at an average of \$200 per acre.

3. The adequate financing for this type of unit, which is the high-priced land section, will therefore require that the maximum loan limit should be increased to \$25,000.

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4. In the ranching districts of the United States the capital outlay required for a properly balanced ranch unit is substantially the same as in the more highly developed sections described above where more intensive farming is practiced for while the cost of land per acre is less, the acreage must necessarily be larger in order to make a profitable ranch unit.

5. The loans made by the joint stock land banks, which have no legal loan limit, show that there is a necessity for loans in excess of \$10,000. (See Exhibit A attached to brief, showing record of Fremont Joint Stock Land Bank to date.)

6. The joint stock land banks were created by Congress because of the conviction that the Federal land banks might not be able to function through national farm loan associations to take care of the farm loan needs of the farmers of the United States. The record of the Federal land banks has demonstrated that the reason which prompted the inclusion of joint stock land banks no longer exists, because the Federal land banks have functioned with unqualified success. (See Exhibit B attached to brief, containing summary of the record of the Federal land banks to date.)

In this connection it is interesting to note that of the loans made by all the Federal land banks during October, 1919, 18 per cent were made to landless men to buy farm homes. This percentage will be greatly increased when the loan limit is increased to enable landless men to purchase farm homes in the more highly developed sections.

7. The Federal land banks must have a large proportion of the business in the most highly developed sections of the country where the profits in the loan business are greatest, so that they can make the loans in the poorer sections at the present low rate.

8. Loans must be made upon a large proportion of the most highly developed lands, so that capital may be attracted to invest in these securities.

CLASSES OF FARMERS REQUIRING INCREASE.

It is necessary that the loan limit be increased to include the types of loans above described for the following reasons:

First, because the farmer living in these more highly developed districts is entitled to the benefits of the Federal farm loan act because his ability to make his loan through this system will give him, first, a loan upon the amortized plan, which is particularly essential in high-priced land sections; and, second, an interest rate of nearly 1 per cent less per annum than he is required to pay through other loan agencies.

Second, there are these types of prospective borrowers in the higher-priced land districts who are especially entitled to the benefits of the act:

(1) The tenant farmer who must amortize his loan and procure it at the least possible interest rate. As the act now stands, the door of opportunity is closed in the face of all tenants in these higher-priced land sections.

(2) The land owner to-day who wishes to enlarge his holdings to furnish a farm for the grown children is prevented from getting an amortized loan at the lowest interest rate.

UNIVERSAL LOANS MAKE LOW RATE POSSIBLE.

The aim of the Federal farm loan act is the higher and universal development of agriculture in the United States. Capital at a low rate on a long-term amortization plan is the answer to agriculture's greatest need. A system constructed upon a plan which would permit merely of the loans upon the poorer classes of lands would instantly defeat the primary objects of the Federal farm loan act, because the experience of all the Federal land banks to date is that in most poorer land sections a 5½ per cent loan rate has been given at an absolute loss to the Federal land banks. The banks have been able to furnish a 5½ per cent rate and part of them have been, and all soon will be, paying dividends, which, throughout the greater part of the United States, will reduce this net cost even lower.

The losses in this territory have been overcome through the profitable loans that have been made in the more highly developed part of the United States where the overhead cost is lower.

Congress wisely made all the Federal land banks of the system mutually interdependent. It is important, therefore, not only to a few districts where the acreage of more valuable lands is greater but it is important to every bank in the system that loans be placed upon the largest possible number of the most highly developed units in the United States because the profits from these units go to the general benefit of the system. In the creation of the 12 Federal land bank districts, the Federal Farm Loan Board, in so far as it was possible, balanced the various districts with a fair proportion of the higher-priced lands, together with the lower-priced and less-favored districts.

BALANCE OF BEST SECURITIES ATTRACTS BOND INVESTORS.

It is essential to the continued operation of the Federal farm loan act that a sure, certain, and adequate market be found at low rates for Federal land bank bonds. It is common knowledge that loans by private concerns in former years in exclusively low-priced land sections have commanded high interest rates. If the Federal farm loan act had been restricted to the small, widely scattered loans of the cheaper sections, to the men who were paying unreasonably high rates under the old plan, investors in Federal land bank bonds would not have been attracted to these securities. The Federal land bank bonds have attracted the investing public because of the strong balance of the highest-class farm securities in the best-developed land sections of the United States. While the volume of business by the land banks in the more highly developed and low-rate territory has been substantial, the Federal land banks have not written nearly so large a proportion of the farm loan business in such territory as they have written in the less favored districts, because the limitation of \$10,000 has been a severe handicap, as we have set forth above.

EVERY FARMER SHOULD BE PERMITTED TO JOIN THE COOPERATIVE SYSTEM.

While the problem has been distressing to the system in former years, it has been made much more acute recently through the organization of joint stock land banks, which confine their loans exclusively to this highly developed territory and which have no loan limit under the Federal farm loan act, since the capitalization of the standard farm units of this highly developed territory will require a loan of from \$20,000 to \$25,000. If the loans are to be 50 per cent of the land values, the farmers who must amortize their loans will make them through the joint stock land banks.

This will be true, because adequate capital will be the controlling factor rather than economy of loan.

The Federal land banks, speaking for the farmers of the United States, believe that every farmer should have the unrestricted opportunity to choose for himself as to whether or not he shall borrow through the cooperative system or through the system operated for private profit.

PROPER RESTRICTIONS UPON LOANS.

We make no plea for landlords or for the man who is borrowing the money for land speculation or for any purposes other than for the development of agriculture, which is the fundamental purpose of the Federal farm loan act as set out by the terms thereof, except as permitted to joint stock land banks.

The fundamental purpose of the farm loan act, as stated in the preamble, is to provide capital for agricultural development, and in furtherance of this purpose the act specifically provides the purposes for which money may be borrowed from Federal land banks. Loans may be made only to actual farmers for strict agricultural uses. As to these limitations, we have no complaint. We believe that every loan made under the terms of the Federal farm loan act, no matter by what agency, should be restricted to actual farmers for agricultural development rather than to landlords and speculators. We further believe that every actual farmer should have an opportunity to finance himself under the Federal farm loan act through that part of the farm loan system which conforms to the fundamental purposes of the act, which authorizes farm loans to these actual farmers at cost and where the benefits of tax-exemption bonds accrue to the farmer borrower rather than to private capital.

The one part of the system is in theory and in actual practice in direct contravention of the fundamental purposes of the Federal farm loan act. The other part, that represented by Federal land banks, has been earnestly striving to the complete fulfillment of the fundamental purposes of the act, and when Congress shall see fit to make it possible for all actual farmers to enjoy the benefits of the act the intent of its framers will be completely fulfilled and agriculture will be developed in the highest possible degree. If the joint-stock land banks are to continue as a part of the Federal farm loan system, they should be restricted in their loans exactly as are the Federal land banks, so that every actual farmer may have unrestricted opportunity to choose for himself as to whether or not he shall make his loan through the cooperative system or through that system where the profits are collected for the benefit of private capital.

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CONWINCING TESTIMONY ON NECESSITY FOR INCREASE.

The students of agriculture, agricultural experts, farmer managers, agricultural colleges, and county agents generally throughout the United States have insisted that an increase of the loan limit is imperative if the Federal farm loan act is to serve agriculture as it was intended. The farm journals throughout the United States have urged the necessity of this increase. The farm organizations, including the National Grange, the Farmers Union, the Farmers National Congress, the National Society of Equity, the National Organization of County Farm Bureaus, and numerous State associations of secretary-treasurers, have earnestly urged that the Federal land banks call upon Congress for this increase in order that the farmers generally throughout the United States might be better served in their loan requirements.

Several hundred secretary-treasurers of national farm loan associations have insisted that unless this limitation is increased, the associations can not survive in any of the more highly developed territory of the United States. In all of such territory there is unquestionable evidence that the associations are going to be so retarded in their development, by reason of their inability to meet the requirements of the farmers in their territory, that a complete fulfillment of the fundamental purposes of the Federal farm loan act will not be possible.

The experience of the Federal land banks in the two and a half years of operations under this act has so convinced them of the imperative need of the increase of the loan limit that the presidents of all the 12 Federal land banks unanimously join in urging upon Congress the passage of an amendment increasing the loan limit to \$25,000.

The Federal Farm Loan Board early in the administration of this act discovered that the maximum loan limit of \$10,000 was an unreasonable and unscientific limitation, and they therefore recommended in their first annual report, and renewed the recommendation in the second annual report, that this loan limit should be increased to \$25,000.

THE FARM LOAN ACT AND AGRICULTURAL DEVELOPMENT.

The Federal farm loan act is one of several acts of Congress resulting from a recognition of the Nation's obligation to agriculture. Congress has for a long time realized that a Nation's wealth is in direct proportion to its agricultural development and prosperity. One of the principal purposes to be accomplished in the enactment of the Federal farm loan act was to remove all the obstacles standing in the way of a full development of our agricultural wealth. The passage of this measure in 1916 has proven to be opportune. The slogan for the present period of reconstruction and economic unrest brought about by the world war is increased production. This burden of increased production will fall primarily upon the farmer and it is highly important that this work be not retarded by the lack of proper financing, and it is certain that the Federal land bank loan is bound to be an important factor contributing to the agricultural output of the country.

The choice is presented to Congress between a makeshift, poorly-balanced plan which benefits one farmer and denies benefits to an equally deserving brother farmer on the one hand and on the other hand, to round out the system in such manner as to make it a broad, comprehensive National cooperative plan, under which all the farmers of America may mobilize their resources for their own and national prosperity.

A SUMMARY BY FORMER PRESIDENT ROOSEVELT.

The thought and purpose we have sought to express may be summarized by a quotation from the writings of a typical and illustrious American, Theodore Roosevelt, on the subject "Farms and farmers":

"We can not permanently shape our course right on any international issue unless we are sound on the domestic issues; and this farm movement is the fundamental social issue—the one issue which is even more basic than the relations of capitalist and workingman. The farm industry can not stop; the world is never more than a year from starvation; this Great War has immensely increased the cost of living without commensurately improving the condition of the men who produce the things on which we live. Even in this country the situation has become grave.

"Our object must be (1) to make the tenant farmer a landowner; (2) to eliminate as far as possible the conditions which produce the shifting, seasonal, tramp type of labor, and to give the farm laborer a permanent status, a career as a farmer, for which his school education shall fit him, and which shall open to him the chance of in the end earning the ownership in fee of his own farm; (3) to secure cooperation

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among the small landowners, so that their energies shall produce the best possible results; (4) by progressive taxation or in other fashion to break up and prevent the formation of great landed estates, especially in so far as they consist of unused agricultural land; (5) to make capital available for the farmers, and thereby put them more on an equality with other men engaged in business; (6) to care for the woman on the farm as much as for the man, and to eliminate the conditions which now so often tend to make her life one of gray and sterile drudgery; (7) to do this primarily through the farmer himself, but also, when necessary, by the use of the entire collective power of the people of the country; for the welfare of the farmer is the concern of all of us.

"Lack of capital on the part of the farmer inevitably means soil exhaustion and therefore diminished production. The farmer who is to prosper must have capital; only the prosperous can really meet the needs of the consumer; and in this, as in every other kind of honest business, the only proper basis of success is benefit to both buyer and seller, producer and consumer."

EXHIBIT A.

The Fremont Joint Stock Land Bank of Fremont, Nebr., is typical of the experience of a number of joint stock land banks thus far chartered.

The bank was organized April 17, 1919, with a paid-up capital of \$250,000. It now has a paid-up capital of \$315,000, with \$500,000 authorized.

The first consignment of loans was received by the Appraisement Division of the Federal Farm Loan Board June 24, 1919.

Up to November 7, 1919, this division had received 225 applications, amounting to \$2,962,545, or an average loan of \$13,166. Of these 225 loans, 137 were for amounts greater than \$10,000.

There were 104 over \$10,000 and under \$20,000, aggregating \$1,514,145.

There were 33 over \$20,000, aggregating \$905,800.

EXHIBIT B (1).

Statement showing loans closed from organization to Oct. 31, 1919.

	Number.	Amount.		Number.	Amount.
Springfield.....	3,771	\$10,433,445	Omaha.....	7,171	\$36,131,690
Baltimore.....	4,288	10,928,300	Wichita.....	10,111	23,981,900
Columbia.....	6,508	14,442,495	Houston.....	10,643	29,998,156
Louisville.....	6,505	18,900,100	Berkeley.....	4,686	14,578,900
New Orleans.....	12,769	18,667,930	Spokane.....	14,344	36,294,620
St. Louis.....	9,374	21,596,280	Total.....	103,672	271,317,816
St. Paul.....	13,206	35,383,000			

EXHIBIT B (2).

[Treasury Department, Federal Farm Loan Bureau.]

Consolidated statement of condition of the twelve Federal land banks at the close of business, Oct. 31, 1919.

ASSETS.

Mortgage loans.....	\$271,317,816.00
Accrued interest on mortgage loans.....	4,504,904.52
Subtotal.....	275,822,720.52
Less amortization payments	2,326,278.86
Net mortgage loans.....	\$273,496,441.66
United States Government bonds and securities.....	34,560,618.61
Accrued interest on bonds and securities.....	439,435.11

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Other accrued interest.....	\$2,405.40
Farm loan bonds on hand (unsold).....	100,000.00
Cash on hand and in banks.....	6,299,417.55
Accounts receivable.....	98,852.05
Delinquent amortization payments.....	152,256.18
Banking house.....	70,140.87
Furniture and fixtures.....	178,184.10
Other assets.....	44,819.87
 Total.....	 <hr/>
	315,442,571.40

LIABILITIES.

Capital stock:	
United States Government.....	\$8,265,809.00
National farm loan associations.....	13,536,782.50
Borrowers through agents.....	44,430.00
Individual subscribers.....	47,235.00
 Total capital stock.....	 21,894,256.50
Reserve.....	202,175.00
Farm loan bonds authorized.....	285,600,000.00
Bills payable (money and bonds borrowed).....	115,075.78
Accounts payable (deferred payments on loans in process of closing).....	119,166.07
Reserved for interest on farm loan bonds.....	6,407,274.75
Other liabilities.....	361,327.87
Undivided profits.....	743,295.43
 Total.....	 <hr/> 315,442,571.40

MEMORANDA.

Net earnings to Oct. 31, 1919	1,278,394.41
Carried to reserve account to Oct. 31, 1919.....	\$202,175.00
Dividends paid to Oct. 31, 1919.....	332,923.98
	<hr/> 535,098.98
Undivided profits Oct. 31, 1919	743,295.43
Capital stock originally subscribed by United States Government	8,892,130.00
Amount of Government stock retired to date	626,321.00
 Capital stock held by United States Government Oct. 31, 1919	 8,265,809.00

The CHAIRMAN. Have you anything to state, Judge?

STATEMENT OF MR. CHARLES E. LOBDELL, FEDERAL FARM LOAN COMMISSIONER.

Mr. LOBDELL. Mr. Chairman and gentlemen of the committee, the Farm Loan Board is just a little embarrassed at the situation that presents itself at this time. We early recognized that in a large section of the country—active agricultural sections—the economical farm unit exceeded materially \$20,000 in value. In Iowa, as Mr. Howard, I think it was, indicated, 170 or 180 acres of land made up the unit, where the average was in excess of \$200 per acre.

One of the primary purposes of the farm loan act was the purchase of land to enable tenants, landless people, to acquire lands.

It is only a matter of computation to see what a 200-acre farm would cost at \$200 an acre—\$40,000. The Federal land bank was unable to assist a man who wanted to buy 180 acres of \$200 land and had only half the purchase price.

There was recommended to Congress an increase in the limit, and we accept and agree to the economical soundness of the idea at this time, but as a matter of administration we are forced to the conclu-

sion that we should exceedingly regret to see the limit enlarged at the present moment, because of the scarcity of funds, because of the fact that no one of the 12 land banks is able with the funds obtainable to respond to the demands for less than \$10,000.

The average loan in the system, as indicated, is between \$2,800 and \$2,900. The making of one \$25,000 loan would set back nine people who are already waiting for the average loan.

That is our difficulty and until that situation passes away we think the system is well employed in getting all the money it can and loaning it to people who need less than \$10,000.

I am sure that Mr. Corey did not mean to state that the system in its present form had not been useful to and had not been availed of by the farmers of Iowa. The fact is that they have borrowed in excess of \$24,000,000 in that State, more than any other State except Texas, the average loan being somewhat in excess of \$7,000.

What Mr. Corey states as to the condition of many of the farmers not only in the corn belt of Iowa but in the cattle countries, and in the cotton countries, is entirely true. They have had credit at the country bank based on their solvency, on their debt-paying qualities, on the fact they owned an unencumbered farm.

For reasons which we need not enter into they are in debt at the country bank. In Iowa they borrowed money a year ago to feed cattle. They gave \$120 for a steer. Then they put him in the feed line, fed him for eight or nine months, and sold him for \$90. He owes the country bank the difference between that, and as far as ability to liquidate immediately is concerned, he is insolvent. His only recourse to reestablish himself and to help the country bank, is through a farm mortgage.

I would not go along with Mr. Corey on the theory that a \$10,000 loan won't do that. The calls for loans of \$10,000, I am quite sure this is true in 90 per cent of the cases, comes either in a demand for a refund or a purchase-money loan. The original loan unentangled by purchase is rarely in excess of \$10,000, and the very large average of this country's indebtedness unsecured at the country bank will be found to be below \$10,000.

So if the banks could function to the limit, and these debts were of the class which they could liquidate to the present limit, it would pretty fully relieve that situation.

Senator GLASS. Judge, touching the probable supply and availability of funds, you recently sold, I believe, \$40,000,000 of farm-loan bonds?

Mr. LOBDELL. Yes, sir.

Senator GLASS. Those sales were made through experienced and expert bond houses largely?

Mr. LOBDELL. A county-wide organization of bond distributors.

Senator GLASS. How long did it take to dispose of the \$40,000,000?

Mr. LOBDELL. Between eight and nine weeks.

Senator KENYON. What rate did they bear?

Mr. LOBDELL. Five per cent, Senator.

Senator SHORTRIDGE. At what rate were they sold?

Mr. LOBDELL. Par.

Senator GLASS. Tax exempt?

Mr. LOBDELL. Entirely tax exempt; yes.

The CHAIRMAN. What is the total amount of bonds outstanding now?

Mr. LOBDELL. I did not bring the figures, but I will try to speak from memory. The total loans in force in Federal land banks is three hundred and sixty-four and a half millions, and approximately that many bonds have been issued. In the joint stock land banks, around 80,000,000.

The CHAIRMAN. Will it increase the cost of administration to increase the maximum to \$25,000?

Mr. LOBDELL. No, sir; it would decrease the cost of administration. It is as much trouble to appraise, it is as much trouble to examine the title, in the case of a \$2,500 loan as it is with \$25,000.

Senator KENYON. Judge, has not your board twice recommended this increase?

Mr. LOBDELL. Yes; and as I say, we do not take any issue as to the theory of it.

Senator KENYON. As to the loans to be made, that is a question for the bank. What is the difference between one \$25,000 loan and 10 loans of \$2,500? That is for the bank to determine, whether to make ten \$2,500 loans or one \$25,000 loan. The mere fact that the law puts a limit of \$25,000 on the amount does not mean that the man is assured of getting his \$25,000 loan. It is entirely optional with the bank.

Mr. LOBDELL. You are entirely right about that. But against that, Senator, is the human tendency to do the thing that makes the most money. The \$25,000 loan brings in more net return—

Senator KENYON. Is that the theory upon which the banks are operating? I thought you were to help agriculture, not to make money.

Mr. LOBDELL. I think they are, but at the same time they like to make a money-making showing, because that money goes back to their farm board.

Senator KENYON. Take your \$10,000 maximum—you must have some maximum. You have 1 man who wants \$10,000 and you have 10 men who want \$1,000 each. That presents the same question.

Mr. LOBDELL. Yes. The same discrimination is necessary.

Senator KENYON. Would you take care of the one where you make the most money or take care of the ones where it was most needed?

Mr. LOBDELL. I think they are adopting the course you suggest.

Senator KENYON. I hope so. I suppose they were.

Mr. LOBDELL. I think so.

Senator KENYON. So the mere fact of having a maximum of \$25,000 can do no harm, because it eventually has to be determined by the bank; and there may be instances where it could do a great deal of good.

Mr. LOBDELL. It can do neither harm nor good unless it is applied.

Senator KENYON. That is up to the bank under all the circumstances. Why do you change your mind now in the matter of recommendation from your other two recommendations?

Mr. LOBDELL. Because of the difficulty of getting enough money to make the smaller loans, because every bank is under pressure and has a line of waiting customers now. That is the answer.

Senator SHORTRIDGE. Is your board unanimous in the position you now state, for the reasons you have indicated?

Mr. LOBDELL. For those reasons only.

Senator SHORTRIDGE. Heretofore you have advised otherwise?

Mr. LOBDELL. Yes, and it is to be hoped that conditions will come again when the system may function to that extent.

Senator SHORTRIDGE. I understand that you have so much money to do business with?

Mr. LOBDELL. We have just what we can get from the investment public. At present that supply is not equal to the demand. The conditions which Mr. Corey depicted so forcefully have created a very great demand.

The CHAIRMAN. How long has this system been in existence?

Mr. LOBDELL. As a loaning agency, just about four years.

The CHAIRMAN. And you have practically \$364,000,000 out?

Senator GLASS. \$440,000,000.

Mr. LOBDELL. Yes, the Federal and joint stock banks.

The CHAIRMAN. I don't know whether this is a proper question or not, but it strikes me that it is a question that I should like information on. Suppose this limit of the maximum was increased to \$25,000, how much increased demand would that make for loans, in your opinion? It would double at least, would it not?

Mr. LOBDELL. I would not think so, Senator; no. No, I would not think so, and yet it would have to be a guess, because not having to do with it heretofore we have not any basis for such an estimate. The joint stock land banks, with their \$90,000,000, if I have the figure rightly in mind, practically without limit except such as we impose arbitrarily—their average loans are only very slightly in excess of \$10,000, under normal conditions.

The CHAIRMAN. I understand your objection is the difficulty of placing the bonds at the present time with the investing public; that is why you oppose this expansion?

Mr. LOBDELL. Yes. I would like to qualify that just a little, if I may.

The CHAIRMAN. Go ahead.

Mr. LOBDELL. Agriculture, or farmers, broadly speaking, resolve themselves into classes, the commercial farmer and the vocational farmer, if I may coin a term of my own. The commercial farmer operates a big farm or a big ranch, in the South with a lot of tenants, and in my section with hired help, as distinct from the vocational farmer who does the work himself, milks the cows, raises the crop, and hauls it to market. He is the chap that borrows on the average less than \$10,000.

The great economic purpose of the act, if there is one above every other, is to get and keep the little fellow on the farm. And at a time when we cannot get enough money for the man whom I would designate the vocational farmer, I am reluctant to take the money away from him and give it to the commercial farmer.

Senator GLASS. In addition to that, may it be said that the commercial farmer who might want to borrow more than \$10,000 has readier access to the commercial banks than the vocational farmer?

Mr. LOBDELL. Relatively that is true and ordinarily it is very essentially true. The life insurance company, the established loaning

agency, caters to the larger loan, for reasons I stated a moment ago, because of the greater profit.

But they are all having trouble now, Senator; they do not differentiate very much now.

The CHAIRMAN. As I understand, the object of this legislation which Senator Kenyon is seeking is this: At the present time the farmer is in very bad condition financially. That is due to the slump in prices, due to no market and other reasons. He is seeking relief for the farmers, and I have a great deal of sympathy with that. Do you take the position that if you could broaden your loans to the vocational farmer, the smaller loans, that that would relieve the situation at the present time? Is that your position?

Mr. LOBDELL. Relatively; yes. I do not believe that Senator Kenyon will contend—we do not take any issue with Senator Kenyon; we are ordinarily for his bill; we ordinarily agree to the economic soundness of his theory. But we do feel, and I think we know, that the demand for the loan in excess of \$10,000, is ordinarily a purchase-money loan. The relief loan is not a big loan. If the land banks had all the money they could loan to persons who want \$10,000 or less at the present moment, it would take care of practically all that situation—not all of it, of course, but it would take care of a very large majority of cases.

The CHAIRMAN. Not to exceed \$10,000?

Mr. LOBDELL. Yes, sir. In other words, it is inconceivable that the country banks are carrying any great volume of paper in excess of \$10,000 in individual cases unsecured.

Senator KENYON. How does the \$10,000 maximum in its purchasing power, at the time this act was enacted, compare with the present situation?

Mr. LOBDELL. Of course the \$10,000 now is nothing like equal in its purchasing power at the time the act was passed.

Senator KENYON. Not more than half?

Mr. LOBDELL. I should hope more than half.

Senator KENYON. Have you figures at all to show what it requires to keep a farm of 180 to 200 acres compared to what it did at the time this act was passed?

Mr. LOBDELL. His equipment, his horses, would cost one-half as much; in machinery 75 per cent more; harness, 75 per cent more.

Senator KENYON. More?

Mr. LOBDELL. More. Machinery would cost more dollars; the harness would cost more dollars. The horses would cost 50 per cent of what they did cost.

The CHAIRMAN. Then I understand it is a lack of money that prevents you accommodating these smaller loans to the extent that you would like to accommodate them—is that true?

Mr. LOBDELL. Yes, sir.

The CHAIRMAN. And if you could sell your bonds to a greater extent, you could relieve the situation to a considerable extent?

Mr. LOBDELL. Just that much further.

The CHAIRMAN. Do you consider that an increase of the maximum not to \$25,000, but say, \$15,000 or \$20,000, might be advisable?

Mr. LOBDELL. As a permanent policy, assuming the banks are able to provide themselves with funds, we should not find any fault with this limit. We think that an Iowa man who wants to

buy a farm worth \$50,000, which would be 200 to 250 acres, about the average unit, ought to be able to come into the system and get it. But if that purchase is going to crowd out 8 or 10 chaps who are in debt and who need the money to refund their debts and carry on their operations, that they do carry on with their own hands, we think he ought to wait on his purchase. Senator Kenyon says perhaps that could be administered, but it merely adds to the difficulties which are already very, very great.

Senator GLASS. Judge, right there: I may say that originally I opposed any discrimination as between limitations upon the farm-loan association banks and the joint-stock land banks; but to meet just such exigencies as are presented here, has not the \$50,000 farm man access to the joint stock land bank?

Mr. LOBDELL. Normally, yes.

Senator GLASS. And the only reason he can not get the money now, can not get his \$25,000, from the joint stock land bank, is that the joint stock land bank finds it almost impossible to dispose of its tax-exempt bonds?

Mr. LOBDELL. Yes.

Senator GLASS. And you would meet just exactly that sort of situation?

Mr. LOBDELL. Yes.

Senator KENYON. Then no harm would be done.

Mr. LOBDELL. That is possible, entirely possible.

Senator KENYON. Do you know what the opinion of the Secretary of the Treasury is?

The CHAIRMAN. I have addressed a letter to the Secretary of the Treasury and sent both bills to him, but have not yet received a reply. I will hand you a copy as soon as I receive it.

Senator GLASS. I think as a general policy there ought not be any discrimination between the two branches of the system. I think the farm loan associations should have the same right to make large loans as the joint stock land bank association.

Mr. LOBDELL. We agree to that.

Senator GLASS. But I do not think as a matter of policy that either system ought to be making \$25,000 loans when both systems are unable to respond to the unfortunate applications for loans from the smaller farmers throughout the country.

Senator KENYON. You think it is more important to take care of the smaller farmer than the larger one?

Senator GLASS. I do, because when a man wants to borrow \$25,000, the individual may be suffering but the community is not suffering, because he can not get it.

Senator KENYON. The country may be suffering in production. A man might be producing that much more with a big farm. If he is going down the little fellow will go down along with him.

Mr. SILVER. I think right here we have developed the two schools of thought on this question. One school believes and testifies here about the little fellow, and they have in mind when they picture the amount of money involved, based on averages, a peasant class, and you can't finance any other class. If you are going to limit it to that amount of money you are going to have a little ox-team farm, or 40 acres and a mule, for keep in mind it takes as long to make a crop of corn, wheat, cotton, etc., in a 25 acre field as it does in a 10 acre field.

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If you are going to finance the American farmer and enable him to be the kind of man who not only can farm but take a place in any other business, you are going to finance him with more money than an average of \$2,800 or \$2,900. You can't finance him on that basis and have him the self-respecting, upstanding type of manhood that you need on the American farm.

I find no fault with the other fellow's point of view if he will be frank and say that when you finance the little fellow you only are financing 40 acres and a mule, that you are not financing the kind of farmers that the American Farm Bureau Federation is largely composed of nor the kind of farmers that America has so far had.

Senator SHORTRIDGE. Let me ask you right there. Assume there are ten what you may call small farmers and one big farmer. Assume that all of the ten small farmers are in dire need of small loans. What would you do? Would you make loans to these ten small farmers, or turn them aside and exhaust your loaning money in a loan to the big man? What would you do?

Mr. SILVER. I would pay the rate of money that will buy their needs in the money market. I am not advocating high rates for money, but if a farmer is going to be saved to-day, as he has got to be saved, you can not argue whether it is 5, 5½, or 6 per cent, but you are going to put that, as a matter of fact, on a basis that will bring that loan to take care of his needs.

Senator SHORTRIDGE. That is scarcely a direct answer to my question. What would you do in the supposititious case which I have put? Would you turn away the ten small applicants to meet the application of the larger farmer?

Mr. SILVER. In answer to your question —

Senator SHORTRIDGE. You have so much money to loan out in Iowa or in California.

Mr. SILVER. Yes; there is so much money under the conditions to which it is limited. In talking with Secretary Mellon, and I think he will confirm it in his letter to you, Mr. Chairman, if it covers this phase of the matter, I asked: "Why can not farmers get more money? Is there not more available credit?" He said, "There is an abundance of money if you can get it to function right. You can not expect to buy money cheaper than the market rate, and you farmers must expect to pay the rate that other people pay for the same kind of securities."

Senator GLASS. Then, do I understand you as favoring an elimination of the limitation upon the rate of interest and turning the American farmer over to the human greed of the American banker?

Mr. SILVER. No.

Senator GLASS. Which was the situation before the adoption of the Federal farm loan bank system.

Mr. SILVER. No. As I testified before this committee not many weeks since, we believed, with the information we had from the Farm Loan Board, from the Treasury, that on a 5½ per cent basis we would sell securities in an amount that would take care of all their needs.

I don't want the farmer turned over to the human greed you refer to. I specifically want him protected from it, or we would not have advocated the farm loan system when it was enacted and are now trying to get it to function so as to adequately finance the farmer with long time money.

Senator GLASS. I understand you want to go into the open market and pay the price that money would bring?

Mr. SILVER. We have to.

Senator GLASS. I suppose that money will always bring the highest price that the possessor of it can get?

Mr. SILVER. We have to pay the price that gets money or forego the purchase of the money. The situation that we see right here is this, that unless we are permitted to finance ourselves, through whatever instrument you see fit to provide us with, we do not get financed. If I am correctly informed, there were some eighteen millions of the forty millions subscribed in about the time of opening. The nine weeks you refer to were devoted to the sale of twenty-two millions of the forty millions. And when you stop to think about it you were financing at the rate of twenty-two millions in 63 days, or at the rate of a third of a million a day.

The CHAIRMAN. Mr. Silver, you are arguing from two standpoints. The first is to relieve the present condition; that is, to take care of the present farmer who is insolvent. Now, I can think as big as you can; but if I understand the object of this act it is not only to relieve the present situation, but it is to encourage the small farmer, because I think if you will look at the production of this country the small farmer plays a very important part.

Mr. SILVER. He does, but the average farmer needs to borrow more than the loan now made by the farm loan banks, and it is the average farmer who produces our food and raw material for clothing, and he is not financed at present.

The CHAIRMAN. The man who comes along without capital but with good character and his own energy; the boy who leaves his father's farm and wants to start out, get married, and begin; the immigrant who comes here and becomes a citizen and wants to produce—

Mr. SILVER. That is true.

The CHAIRMAN. I don't think you want to destroy that principle.

Mr. SILVER. Absolutely not.

The CHAIRMAN. But you are arguing from the other standpoint, that the big farmer should be financed.

Mr. SILVER. Not to the detriment of the other.

The CHAIRMAN. You talk about peasant farmers and 1-mule farms. If you will look at your great productive areas in the West, you will find they began with a team of oxen and as 1-mule farms. If I understand the object of this act correctly, it is to encourage the man to set out and start to produce, even if it is in a small way.

Senator GLASS. Right on that point, I take a great deal of satisfaction in classifying myself with the friends of the peasant farmer. I was chairman of the joint congressional committee that reported the farm loan act, and therefore I am enabled to say to you that one of the very primary essential purposes of the act was to modify the tenantry system of the United States and if possible put a stop to it; to help the tenant farmer to become owner of a farm himself. That was one if not the primary purpose of the act.

The CHAIRMAN. We have had that same battle in New Jersey, where they have accumulated acres and bought dozens of farms, commercialized it, and gone into it by the wholesale, and our effort has been to try and induce the small farmer to develop the small

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farm, and we get greater production and better results out of a group of small farmers than we do one of these big commercialized projects.

I don't know much about the West. I hope to study it later. But that is the situation in little New Jersey, and through that system of encouragement, through our State board of agriculture, we built up the production from \$40,000,000 to over \$230,000,000.

Senator KENYON. What is the average size of the farm?

The CHAIRMAN. About 80 to 120 acres.

Mr. SILVER. You ought not to refer to \$25,000 and the dozen farms. You know there is no relation between them.

The CHAIRMAN. But you are discrediting the peasantry and the small farmer.

Mr. SILVER. Oh, no; I am taking care of him and the average farmer, too.

The CHAIRMAN. I think if you will look into it you will find the small farmers a very large part of the western farmers.

Mr. SILVER. If I said anything to cause you to believe I was discrediting the peasant farmer, I did not mean to say it. I mean to say this, that while he must be taken care of, and it is right and I want to take care of him, I also want to see the other group taken care of. I do not think we should play one group against the other. But that point did not seem to be developed. I want to see the American farmer whether he be the son of a farmer starting, whether he be an immigrant starting, or whether it be a man who has been farming along and gotten to the place where he has a family and needs more funds to carry on with, that he should be taken care of, so that his children may be educated, and that he may go out into the world an upstanding man, looking the world in the face and feeling like all American citizens should feel.

We realize fully that we can not expect the bank of deposit to take the deposits that the depositor may need for his own use later on and compel it to put it into long-time loans. We have no quarrel with the Federal reserve bank. Although the Federal reserve bank is not financing the farmer with long time money we have no quarrel with it.

Senator GLASS. I do not agree with you that it is not financing the farmer. As a matter of fact those Federal reserve banks located in the farming regions of the United States have outstanding a greater extension of credits than those banks located in commercial communities. And not only that, they have from 50 to 250 per cent greater outstanding debts now than they had 18 months ago.

Mr. SILVER. The most recent figures I saw were that the farmer was getting 14 per cent. Now we are not quarreling with that. We do not expect the bank of deposit, which has deposits that the depositor may need in a few weeks or a few months, to make us a 10-year loan. We can not expect that. But we do expect an instrument that will permit us to go into the money market and buy the investment money, the kind of money that we need, and we must have that instrument through your committee and our Congress. But we are not getting it to-day. The result of our referendum shows that the farmer to-day is suffering for lack of proper financing.

Senator GLASS. I want to say this, but it is not necessary for it to go into the record.

(Thereupon informal discussion ensued which was not recorded.)

The CHAIRMAN. Would there not be more widespread disaster if we inflated the farm-loan banks beyond their capacity to handle the situation, if you break down the situation by overinflation? I want to see a middle ground taken in this proposition; I want to be conservative.

Mr. SILVER. Don't think for one minute, Senator, that because you extend to a farmer a credit that will carry him over this crisis, which keeps him from bankruptcy, that we are inflating. You are simply permitting him to have the breath of life while he has a chance for another year or two's crop.

The CHAIRMAN. I understand that, and I have sympathy with it.

Mr. SILVER. I think you do; but I can not understand how we can arrive at this with different viewpoints. The great need is that we must be financed, and we can not wait until next year to work it out. If we do not work it out now, when another winter comes the distress will be untold.

The CHAIRMAN. Are there any other witnesses?

Senator KENYON. I think not, Mr. Chairman. We are very much obliged to the committee for the hearing on this bill.

The other two bills can be taken up now.

The CHAIRMAN. S. 2263 is the bill introduced by Senator Kellogg. What is your bill?

**STATEMENT OF HON. WM. S. KENYON, UNITED STATES
SENATOR FROM IOWA.**

Senator KENYON. I don't remember the number of it, but it is the same proposition, Mr. Chairman, except it places the Secretary of Agriculture on the Federal Reserve Board.

We are not here to criticize the Federal reserve system. It has done wonderful work and kept this country out of a panic, and I pay tribute to the Senator from Virginia for what he has done in it.

But, Mr. Chairman, there is a feeling among the farmers of the Middle West—I don't know that it exists in the South, but I think it does, judging from the remarks of the Senator from South Carolina—that they have not had a square deal from the Federal Reserve Board, in that the Federal Reserve Board, consisting of bankers, have not sensed the situation as to agriculture and its importance in carrying out this system.

You all know the feeling among the farmers to-day in this country. I need not stress it. I think the farmers are in the most disastrous, depressed situation. I know they are in the Middle West, more so than they have ever been in my lifetime. They are going ahead with a patience and courage this year that is most remarkable, putting in their crops with a large percentage of the old crop on hand. And the most tremendous crops are coming in this country this year, which in a way is a bad thing, because there is no place for them to go.

There is a psychology about this whole thing of giving the agricultural interests a representative on the Federal Reserve Board. They ask for it, and how there can be harm in it, I can't see.

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If the Federal reserve system is to be a great supergovernment of business, as it is now, I think that the agricultural industry should be represented, labor should be represented, manufacturers should be represented, transportation should be represented, so that it can work as an harmonious institution.

It may not be proper to put the Secretary of Agriculture on there. It seemed to me it would be entirely proper. It would not increase expenses at all. Senator Kellogg's idea is, as I take it, that some representative of agriculture, not being the Secretary of Agriculture, should be placed upon the board. We have not any great quarrel about that. For my part I would prefer to see the Secretary of Agriculture on the board.

Senator GLASS. The Senator will remember that the original House bill provided that the Secretary of Agriculture should be a member of the board, and you Senators struck him off.

Senator KENYON. You say "you Senators"; you want to be more specific in your remark. [Laughter.]

The CHAIRMAN. As I understand your position you do not object to the bill of the Senator from Minnesota, if the committee should determine it is not wise to put the Secretary of Agriculture on?

Senator KENYON. Yes; that is true.

The CHAIRMAN. Is it your idea that the membership should be increased, or that the present board, the number now constituted, should remain until there is a vacancy?

Senator KENYON. My idea in putting on the Secretary of Agriculture was that it would have to be increased, but it would not increase the expense.

**STATEMENT OF HON. FRANK B. KELLOGG, UNITED STATES
SENATOR FROM MINNESOTA.**

Senator KELLOGG. I have only a word to say. I knew there had been serious objection to putting Cabinet officials on the Federal Reserve Board, other than the Secretary of the Treasury. I was aware of what the Senator from Virginia has said, and I heard very serious objection to it when the bill of the Senator from Iowa was introduced.

The objections expressed to me, some of them, were these, that the Federal Reserve Board ought not to be more than is absolutely necessary, subject to political pressure. A Cabinet official is necessarily and properly a political representative of the President. I do not mean that his whole business is to represent his political party. Of course, that is not true. But he necessarily is, and knowing these objections I thought I would introduce a bill, and bring it before the committee, providing for a representative of agriculture, the same as the law now provides that there should be two representatives of banking and financial institutions.

Furthermore, I am inclined to think, although I have no objection to the Secretary of Agriculture being on the board, that it is better to have a man entirely disconnected with the Executive organization in the administration. I think it is necessary that the Secretary of the Treasury, and very properly, should be a member. Of course, I would much prefer if the law could be amended that one of the present members be required to be a representative of agriculture.

The interests of agriculture are so large that I am inclined to think that it would have a great psychological effect. I do not, of course, urge that any particular industry in the country should be favored here more than any other industry. But that is the great industry. We have heard within the last few weeks very serious claims in the Senate against the Federal Reserve Board. I do not join with them at all. But there is no vacancy on the Federal Reserve Board. There won't be, will there, Senator, for some time?

Senator GLASS. I really don't know when the next vacancy occurs.

Senator KELLOGG. At least one year, I am told. So I introduced this bill that it might be before the committee.

The CHAIRMAN. Increasing the membership one?

Senator KELLOGG. Yes; and making one a representative of agriculture.

I think the opinion of the Senator from Virginia on the question would be very valuable, as he has had experience. But it struck me there was serious objection to putting any more Cabinet officials on the board.

Senator GLASS. There is the objection, and there was objection originally, and that partly accounted, I assume, for the action of the Senate committee in striking the Secretary of Agriculture from the board. And then it was urged that the Congress would presently take up the question of agricultural credits, credits peculiarly relating to agriculture, and make provision for it. That I think was the strongest incentive—indeed I think that chiefly prompted the Senate committee in striking the Secretary of Agriculture off the list.

The Federal Farm Loan Board is assumed peculiarly to represent the agricultural interests of the country. It is a mistaken idea, Senator, that the Federal Reserve Board is composed exclusively of bankers. It is not.

Senator KELLOGG. There are only two bankers on it.

Senator GLASS. Gov. Harding is a banker. Your Minnesota man, whom I am told is a very excellent selection, is a retired banker. He has no immediate banking interests. He has knowledge of banking, as the law requires.

Senator KELLOGG. He is not now connected and has not been for some time.

Senator GLASS. And was not when he was selected.

Senator KELLOGG. No. He may have been on a board of directors.

Senator GLASS. Mr. Platt is a newspaper man.

Senator KENYON. They are more or less bankers, are they not?

Senator GLASS. They are more or less bankrupt. [Laughter.]

Mr. Miller of California, is not a banker in any sense. He is a political economist, student of economics. Mr. Hamlin, of Massachusetts, is not a banker. So the board is far from being composed of bankers. Mr. Delano, who was a member of board, is a railroad man, and not a banker at all. So the board is not composed of bankers. I am not saying this to indicate any opposition to one of these bills.

Senator KELLOGG. Of course, the Federal Reserve Board, while it is true it is not primarily connected with farm financing, as the Senator from Virginia has stated, it is more true of the Farm Loan Board. It is of course very largely interested in the administration

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and the credits of the city banks which do extend very large credits to the country banks, the business of the latter being almost entirely in farming.

Senator GLASS. That is true, Senator, and they are administering the system—the text of the law which covers it describes that they shall make farm loans.

Senator KELLOGG. Yes.

Senator GLASS. And with the greatest sort of partiality.

Senator KELLOGG. Yes; that is true.

Senator GLASS. I dislike so much to be seemingly classified as among those who are hostile to the farming interests. As a matter of fact the federal Reserve law is altogether partial to the farmers. You and I happen to be a manufacturer or a merchant, and the duration of our credit is limited to 90 days. We can not get a rediscount on our paper of more than 90 days. The farmer can get a rediscount of six months. As it were he is God's chosen people under the text and terms of the Federal reserve act.

I must confess that it irritates me when gentlemen get up on the floor of either House of Congress and try to make it appear that the poor farmer has been discriminated against. Under the Federal reserve banking system it is not a fact.

Senator KELLOGG. The Senator has not heard me—

Senator GLASS. No.

Senator KELLOGG. I took pains last fall to inquire on a certain day in October what the condition of the Federal reserve, the city banks and the country banks, in my State was, and I found that the loans to country banks in St. Paul and Minneapolis on that day, in last October, I don't remember the exact date, were forty millions more than the year previous. The deposits in the city banks from the country banks was \$35,000,000 less. That is for two cities in my State, which amounted to a total of \$75,000,000.

Nevertheless the country banker who deals largely directly with the farmer of course is an exceedingly important factor in the Federal reserve system.

Senator GLASS. Oh, yes. I am not making any argument against your bill. I appreciate the fact there is a great deal about the psychological effect of doing something of that sort, only I think there are certain Senators and Representatives who destroy the psychological effect by inveighing against the Federal reserve system as the enemy of the farmer. He says one farmer can't outvote seven bankers on the board.

Senator KENYON. Mr. Vrooman, who was formerly Assistant Secretary of Agriculture, is here, and would like to say a word.

STATEMENT OF HON. CARL VROOMAN.

Mr. VROOMAN. Mr. Chairman and gentlemen of the committee, I would like to say first that I have an unbounded admiration for the Federal reserve system. I think it is the greatest single piece of constructive legislation in our generation.

I would also say that from the start I have favored having a farmer as a member of the board. I was sorry that that provision of the law did not go through, and I was astounded when the appointments were made that there was not a farmer upon it without a pro-

vision in the law. It seemed to me such an inevitable and natural thing.

I agree with everything that the Senator from Virginia has just said. My grounds for favoring a farmer on this board are the grounds upon which I imagine that some people are favoring it. It is not that I feel the Federal Reserve Board is trying to do any injury to the farmer or has not his interest at heart, and all that sort of thing.

As a matter of fact, I feel that the greatest need of the farmer to-day is not more credit. I think we are overestimating that very much. A great many farmers have more credit than they are entitled to right now. Bankers will tell you they have been loaning money when farm products were worth four or five times as much as now. They were loaned money and the value of their crop has decreased and decreased until to-day the farmer owes the bank a lot more money than he has got to pay, more than the value of the security.

What the farmer needs to-day above everything is a market for his stuff. That is his need. So I think there is a great deal of talk aside the mark on this question of credit.

The CHAIRMAN. Legislation can not supply that, can it?

Mr. VROOMAN. No; but I think it can make some of it available. The man has to exist. It can open up channels to it—I think it certainly can.

But it seems to me that with a great financial system like the Federal reserve system, which not only finances fundamentally the financial needs of this country but has such a tremendous influence on the finances of the world, it seems astounding that we have not got a farmer or representative of agriculture on the board.

As to whether this man should be the Secretary of Agriculture or a representative of agricultural interests, aside from being Secretary of Agriculture, is a question where there are arguments on both sides.

Because a man is Secretary of Agriculture does not necessarily mean that he is a representative farmer or has a farmer's point of view.

Senator SHORTRIDGE. What type of man would you select if you had the selection of a member of this board? You speak of a farmer.

Mr. VROOMAN. Yes.

Senator SHORTRIDGE. What type of man intellectually and commercially interested would you select, when you say a farmer on the board?

Mr. VROOMAN. I would not necessarily insist on the man being a dirt farmer, but what I would insist upon would be that the man understood the farmer's point of view, and sympathized with it.

The CHAIRMAN. Rural minded?

Mr. VROOMAN. Yes; who had the farmers' needs not only in mind but at heart. While I think the present Secretary of Agriculture is just such a man, I do not think it has always been the case.

Senator SHORTRIDGE. How about the mining industry? Why not have a representative on the board representing the great mining industry of America?

Mr. VROOMAN. The great mining industry of America is very important, but as compared with agriculture it is unimportant. Agriculture is the greatest industry of the country not only in volume but in the fact that it is absolutely basic. Wages themselves are largely

of value according to the amount of food and other agricultural products which they give to the man. The real wages are the amount of agricultural products that the man can get.

Of course mining and the coal industry and all such enter in, but agriculture is the basic industry, not only in production but in consumption. It is the major chord in our national life, and to leave it out seems to me like leaving out the violin from an orchestra.

That is what has been done. The surprising thing to me is that with that left out of the Federal reserve system it has been functioning as well as it has. I think it has functioned wonderfully. Of course, we all make mistakes, and it has made mistakes, in my opinion. It has been chiefly mistakes of omission, and it would have made mistakes if we had had an agricultural-minded man on it, and those of us who were criticizing it then would have said the seven bankers had outvoted the farmer.

Senator SHORTRIDGE. Don't you think we ought to assume that each and every member of this board has at heart and constantly in mind the agricultural interests of the Nation?

Mr. VROOMAN. I have no doubt that they would like to, and so far as they are able I have no doubt they have. But we are all limited by our training, our experience, our prejudices, the people we associate with the most, and whose interests naturally appeal to us most closely. If I were a member of the Federal Reserve Board and represented the commercial interests, the railroad interests, the manufacturing interests, or any other interests, I would welcome somebody who represented directly the agricultural interests to a seat on the board.

Senator SHORTRIDGE. I never understood, if I may add a word with your permission.

The CHAIRMAN. Certainly.

Senator SHORTRIDGE. I can never understand this sort of language, namely, that we should have a man representing this interest, another to represent that interest. I go upon the assumption that an honorable man, a patriotic American man, called to a public office, to perform a public duty, has in his mind the welfare of our people. I have heard it said that a lawyer should not be called into the public service. Men who say that forget the great lawyers who have served this country.

Mr. VROOMAN. Quite so.

Senator SHORTRIDGE. I don't understand what is meant, with great deference. I was born on a farm, not reared there altogether. I don't understand any man whom I have heard speak; I don't understand him when he says he wants a man to represent the agricultural interests, if he be a good man, a capable man, an honorable man, unless you mean an actual farmer.

The CHAIRMAN. Senator, I think I can explain it.

Senator SHORTRIDGE. I don't understand it.

The CHAIRMAN. I have been brought up in the financial world, although I have always been on a farm and have large farming interests to-day. There is an indifference to-day in my State by the financial men, the bankers and the merchants, and the industrial workers, to the great importance of farming in this country. They do not realize that if for 48 hours or for a week or two the farmers failed to plant the country would be starved.

Senator SHORTRIDGE. Does not every man realize that?

The CHAIRMAN. No. They call the farmer a heck. There is a general prejudice all over the country in the minds of financial men toward the farmer, except in farming districts. That exists in the minds of everybody. They disregard their interests.

The point made here, and I agree with it, is that a man who has a knowledge of the science of farming, is in sympathy with the interests, can contribute something to the wisdom of the financial system of this country. I think it is greatly needed, and I am a financial man and brought up in that atmosphere. I have seen enough of the other side to realize that their interests are not properly presented and not properly represented in this country.

Senator GLASS. They are on the Federal Reserve Board, Senator.

The CHAIRMAN. I am not questioning any action of the Federal Reserve Board.

Senator GLASS. But does anybody here imagine that the Federal Reserve Board makes loans, that the Federal Reserve Board extends the farmer credit? These credits are extended by the individual banks in their individual communities, by men who know the requirements of the particular territory and the men who live in them. The Federal Reserve Board here at Washington just has observation and administration of the general policy of the system. They do not extend any credits.

The CHAIRMAN. But, Senator, this is what I mean. For instance, take a man who is prominent—we will say a man like Wallace, who is not only a farmer and who has knowledge of farming, but is a man of some position and some accumulation of wealth, we will say—can not he bring to the Federal Reserve Board a knowledge of conditions? For instance, you take the live-stock situation, would he not be informed of it, and could he not present it a great deal better than the average banker who came from either New England or some other section of the country where he was not familiar with it? That is the point.

Senator GLASS. He does not need to be a member of the Federal Reserve Board to present it as a practical view. That situation was presented to the Congress of the United States, and Congress did an unprecedented thing. What it did for the cattle people of this country has never been done since the foundation of the Government to any other interest. He authorized the Secretary of the Treasury to deposit the people's money in these farm banks for the particular advantage and benefit of the cattle feeders and growers of this country—on what? On security that would be required of you as a manufacturer or me as a merchant, or somebody else in some other avocation? No. Upon their own I. O. U.'s, upon their own certificates of indebtedness, a thing never done for any other interest before in the United States.

It does not require that a man shall be a member of the Federal Reserve Board.

The CHAIRMAN. Oh, no; but I think it improves the situation.

Mr. VROOMAN. It is not necessary at all.

Senator GLASS. Whenever you begin to say that this or that interest shall be represented on the Federal Reserve Board, in my humble judgment it sounds the death knell.

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Senator KENYON. The act provides that the President shall have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country. Further on it says that of the five members appointed by the President, at least two shall be persons experienced in banking or finance.

Senator GLASS. Yes.

Senator KENYON. Why say those things?

Senator GLASS. Because it is a commercial banking system. Would you say that the Farm Loan Board should have a laboring man on it or a farmer on it? It is not a commercial system at all; it is a mortgage system; it is a land system.

Mr. VROOMAN. Is not this Federal Reserve Board vastly more than a commercial banking system?

Senator GLASS. No; it is that peculiarly, a commercial banking system. The requirement is that its assets shall be liquid, that it may be called on at any moment to administer to an exigency in any part of the country, that the system may realize on bonded securities, and not be choked up with securities that can not be realized on. It is a commercial banking system.

Mr. VROOMAN. That is what it is, but it is vastly more because it dominates the whole financial world of America and to-day is dominating the financial world outside of America.

Senator GLASS. It ought to. We hoped it would dominate the commerce of the world, and agriculture is a great part of the commerce of the world. But whenever you begin to pick out men to represent interests on the board you are going to do it infinite harm, in my judgment.

Senator KENYON. Why did you have it in the House bill originally the Secretary of Agriculture?

Senator GLASS. It was the political aspect of it—I do not mean the partisan, the party aspect of it. I mean in any broad view of the term, the political aspect of it.

Some people are now proposing to turn off the Secretary of the Treasury from the board, which I think would be a calamity, and the Comptroller of the Currency, which I think would be a calamity. There is a man with the most intimate knowledge of every detail of the national banking system of the country.

The idea was that the people of the country might have some means of reaching the board. If it should adopt a policy that seemed to all the people was hurtful to the business interests of the country, the only way they would have to reach it would be a Presidential election—elect another President who would appoint other members of the board, both directly and ex-officio as Cabinet members.

Senator SHORTRIDGE. My particular question, which led to this discussion, was as to what type of man you would select. I may add, too, finally, that I am opposed to anything and everything that savors of class legislation. There is only one class of Americans with me.

Mr. VROOMAN. I quite agree with you. If there is any one thing that is intolerable in our national life it is class consciousness. Unfortunately we have got it in a very large measure.

Senator SHORTRIDGE. We ought not to add to it.

Mr. VROOMAN. I am not advocating adding to it.

Senator SHORTRIDGE. I do not say you are.

Mr. VROOMAN. I am advocating quite the contrary. I am advocating a representation which will make, which will allow all classes to understand the other classes—to use terms which are current in use, although I wish there were other terms—in such a way that we will have a national consciousness instead of a class consciousness.

Now the board lacks a person who sympathizes with or understands the farmer's point of view on the Federal reserve system to-day. That is doing more to-day to create class consciousness among farmers than any other one thing. It is not only the Federal Reserve Board. I would advocate having a farmer or man with an understanding and appreciation of the farmer's mind and his problems not only on the Federal Reserve Board but I would have such a man on the Interstate Commerce Commission, on the Federal Trade Commission, and on every other great national body in Washington.

Senator GLASS. On the Supreme Court?

Mr. VROOMAN. I think if we did not have somebody on the Supreme Court that was raised on a farm it would be a national calamity, Senator.

Senator SHORTRIDGE. May we reasonable assume that the Secretary of Agriculture represents the great agricultural interests of the country?

Mr. VROOMAN. He does to-day.

Senator SHORTRIDGE. And that proceeds on the assumption that the appointing or selecting power, namely, the President, had regard for this great agricultural interest and chose as his advisor a man familiar with that great industry. Would you therefore suggest that he be made a member of the board, the Federal Reserve Board?

Mr. VROOMAN. I think that he would be an excellent man, that type; the type of Secretary Wallace would be an excellent man on the board.

Senator SHORTRIDGE. That may be, perhaps, an answer to my original question as to the type of man you would have on this board?

Mr. VROOMAN. If he has the mental comprehension of it and has the interests of the farmer at heart. It is one thing to have the general patriotic attitude you speak of, Senator; it is quite another thing to become competent, and I do not think, as a matter of fact, that any of us are competent to understand sympathetically a thing and to appreciate the needs of all the various categories of citizens in this country. That is why, if I may venture to suggest it, we have in the Cabinet itself representatives of all the different and varying interests of the country.

Senator SHORTRIDGE. I have long thought that we ought to have a department of mines and mining.

Mr. VROOMAN. I think it would be an excellent thing. It is a great industry. The argument that is made for agriculture could in a lesser way be made for mines and mining, but it is a sufficiently large industry to have somebody who understands it so intimately that he can feel it. You never can do anything well until you do it more or less unconsciously. You never understand any problem well until you understand it so well that you can talk about it practically with your feeling as well as your thought, and that comes from a long-time association with any industry.

Senator SHORTRIDGE. Well, then, you think just as the Cabinet is represented by a Secretary of Agriculture, so there should be a representative of agriculture on this particular board?

Mr. VROOMAN. Yes, sir; The Federal Reserve Board I regard not only as a great commercial banking system, but in a way, as a general staff of the finances of America. And I feel that agriculture should be there, and yet I agree with all that Senator Glass says. I appreciate his feeling with regard to this criticism. But the principle upon which I advocate it is the general principle of government.

Senator KENYON. Mr. Vrooman, you are a real farmer of Illinois; you are among the farmers a great deal. What about the condition of the farmer's mind now?

Mr. VROOMAN. The farmer's mind is in a very grave state just now. Every crop he harvests he harvests at a loss. I am holding up half of my tenants to-day. The banks are also acting very well. Half of these tenants of mine are potential bankrupts. If I were to call them at the banks to-day they would have to sell their horses, their machinery, and their various things to satisfy the claim of the banks and myself. The farmer is slow of movement, but he is getting in a dangerous state of mind, in my opinion.

Senator SHORTRIDGE. What do you mean by that?

Mr. VROOMAN. I mean to say, sir, that he is getting desperate. He does not know exactly what ought to be done, but he feels that he has worked hard, not only this year. It is the accumulation of his whole lifetime and of his labor that is involved. They are going bankrupt by the hundreds of thousands.

Senator SHORTRIDGE. How was it during the war period in Illinois, the condition of the farmer?

Mr. VROOMAN. It was very prosperous.

Senator SHORTRIDGE. In 1914, say on up to the armistice?

Mr. VROOMAN. It was very prosperous, and they accumulated a great deal of money at that time and put it in machinery and tractors, things which they could not have or would not have bought if they had realized they were going into such a terrible situation now. Some of them bought tractors and did not pay all the money down, and now they are head over heels in debt. The prices have actually gone down during the last few months when they hoped they would go up. They have this vast accumulation of stock on hand, not worth the money borrowed on them.

Senator SHORTRIDGE. Why did they borrow so much?

Mr. VROOMAN. They had to borrow.

Senator SHORTRIDGE. What is the theory of it?

Mr. VROOMAN. They proceeded to buy a tractor for instance; they bought live stock, and lost money on their purchase of live stock.

I lost for instance \$8,000 on one farm in 1919 in live stock out in Iowa. I have some farms in Iowa as well.

Senator SHORTRIDGE. You regard yourself as a farmer?

Mr. VROOMAN. That is my way of making a living; yes, sir; it is my only business.

The CHAIRMAN. Mr. Vrooman, is there anything more you have to say?

Mr. VROOMAN. No, sir.

The CHAIRMAN. The committee will go into executive session.

(Thereupon the committee went into executive session, and at the conclusion thereof adjourned until to-morrow, Tuesday, July 19, 1921, at 11 o'clock, a. m.)

AMENDMENTS TO FEDERAL FARM LOAN ACT AND FEDERAL RESERVE ACT.

TUESDAY, JULY 19, 1921.

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 11 o'clock a. m., in the room of the Committee on Banking and Currency, Senate Office Building, Senator Joseph S. Frelinghuysen presiding.

Present: Senators Frelinghuysen (chairman), Shortridge, and Glass.

The CHAIRMAN. The committee will be in order. The object of the hearing is to ask Gov. Harding to appear before this subcommittee of the Committee on Banking and Currency regarding two bills that have been introduced and on which we held a hearing yesterday. We desire to ask Gov. Harding's views regarding them. One of the bills, introduced by Senator Kenyon, provides that the maximum loan under the Federal far loan act shall be increased from \$10,000 to \$25,000. That is the first bill.

Senator GLASS. Mr. Chairman, do we want to hear members of the Federal Reserve Board on that? That relates exclusively to the farm loan system.

The CHAIRMAN. I understood that was your idea.

Senator GLASS. No. My idea was to hear them on the proposition to have a distinctive representative of agricultural interests on the Federal Reserve Board.

The CHAIRMAN. All right. Therefore we will not ask you to state your views, Governor, on the first bill. The bill under consideration then, is Senate 2263, introduced by Senator Kellogg, providing that the Federal Reserve Board shall consist of eight members, one of whom shall be a representative of the agricultural interests, appointed by the President of the United States.

STATEMENT OF HON. WILLIAM P. G. HARDING, GOVERNOR, FEDERAL RESERVE BOARD.

Mr. HARDING. Mr. Chairman and gentlemen of the committee, the Federal Reserve Board is very decidedly of the opinion that this would be unwise legislation for the following reasons: First, it would fix the membership of the board at an even number. All the boards and commissions that are in Washington, even the Supreme Court itself, have an odd number, so as to prevent the possibility of a deadlock resulting from a tie. This would make an even number.

In the second place, we feel that it is class legislation. While no member of the board underestimates the importance of agriculture,

and while we are all friendly to agriculture, and I have figures here to prove our faith by our acts, we do not see why there should be a member of the board made a statutory appointee as a direct representative of agriculture.

The law already provides for the appointment of five members of the Federal Reserve Board, and states that the President in appointing those members shall pay due regard to the commercial, industrial, and geographical division of the country.

There is nothing in the law which prevents the President from appointing an agriculturalist on the board if he sees fit to do so, but it does not require him so to do.

As a matter of fact, two members of the Federal Reserve Board claim that they are agriculturists. One from the State of Massachusetts has a farm down on Buzzards Bay, not a very large farm. He is a member, I understand, of the Massachusetts State Grange and has always taken an interest in agricultural matters. The other member, from the Pacific coast, has a ranch in California, and is actively engaged in agriculture. He is also an economist.

Under the law there is a vacancy on the Federal Reserve Board every two years. There will be a vacancy next August.

The CHAIRMAN. A year from this August?

Mr. HARDING. Yes; a year from this August; and there is nothing to prevent the President from appointing an agriculturist, a dirt farmer, if he wants to, without any additional legislation.

Where will we stop if agriculture as such is given by law the right always to have a member on the Federal Reserve Board to represent that particular interest? Why should not other large interests in the United States be equally entitled to representation on the board? Why should not the motor industry be entitled to representation; why should not the oil industry be entitled to representation? If you begin with legislation of this sort you will have a Federal Reserve Board made up of an aggregation of special interests and the members will be swapping favors with one another—"You favor a ruling of this sort for my industry and I will help you to get a ruling of this sort for your industry."

My conception of the Federal reserve act is that class was not to cut any figure. It was a banking act for the benefit of the whole people and we believe that this legislation will be subversive of that.

From another point of view we think this altogether unnecessary. We deny the charge, which has been so frequently made, and which has never been supported by facts, that the Federal Reserve Board has in any way discriminated against agriculture. On the contrary the discrimination, if any, has been distinctly in favor of agriculture, and I have the figures here to prove it.

The CHAIRMAN. Do you intend to introduce them?

Mr. HARDING. I intend to introduce those figures at the proper time.

I wish to call the attention of the committee to the fact that the criticisms which have been made against the Federal Reserve Board, and very severe criticisms, are not supported by facts; they are just mere generalizations, personalities, actuated no doubt by a sincere sympathy for the agricultural interests which have suffered in this period of reaction, just as all other industries have suffered.

Senator GLASS. Do you mean to say that none of them are supported by facts, or that some of them are not supported by facts?

Mr. HARDING. I mean that not any of them are supported by facts.

As far as liquidation is concerned it has been most complete and the depression has been most severely felt in the manufacturing districts. Take New England, for instance. At the Federal Reserve Bank of Boston liquidation has been very complete. The same thing exists in your district, Mr. Chairman. You know how the manufacturing industries there have had to curtail.

I want to give you some figures. While the earning assets of the Federal Reserve banks since July of last year have decreased \$1,100,000,000, about, that decrease has not come from the agricultural districts. The decrease has been very largely in two classes of paper—one, paper secured by Government obligations, United States bonds and Treasury notes; second, bills of exchange and bankers' acceptances purchased in the open market.

There has been a decrease of several hundred million dollars in that second item, due to two causes. Our foreign trade has fallen off. Transactions are now being made on a lower price level, and the volume of those transactions, expressed in dollars, is not by any means as large as was the case a year ago.

So that while a year ago the Federal Reserve banks were carrying between four and five hundred million dollars in bankers' acceptances in their portfolios, they are now carrying a negligible amount, thirty-five or forty millions.

Furthermore, there has been a constantly broadening demand for bankers' acceptances. Banks formerly were in the habit of carrying their so-called secondary reserves in the form of commercial paper purchased on the open market from bill brokers. That was mainly one-name paper, bought on the statements made by the makers.

As there are a great many large manufacturing and commercial concerns that have had to mark down their inventories and show a smaller percentage of assets, bankers feel there is an increased risk in paper of that sort, and they are showing a decided preference for bankers' acceptances where they have a commercial name, and also a bank name, and they are buying bankers' acceptances at rates distinctly lower than commercial paper is offered, an average of about 1 per cent lower. Thus the demand for bankers' acceptances has broadened so that the Federal reserve support of the acceptance market is only a negligible factor at the present time.

The ordinary bills rediscounted for member banks have declined only about \$138,000,000 since last July, in the face of a decline of all invested assets in Federal reserve banks of more than \$1,100,000,000. The decline in the aggregate of commercial paper, live-stock paper, and agricultural paper, rediscounted by Federal reserve banks for their member banks has been only \$138,000,000, as I have just said. That reduction is accounted for in three districts and in three cities in those districts. That reduction is accounted for by the repayments which member banks have made to the Federal reserve banks in the cities of Boston, New York, and Chicago.

Eliminating those three cities, that item shows an increase in the rest of the country.

Let us discuss agricultural and live stock paper a moment. Section 13 of the Federal reserve act provides that paper to be eligible

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must be issued or drawn for an industrial, commercial or agricultural purpose, and that the proceeds of that paper must have been used or are to be used for such purposes, and that all such paper must have a maturity at the time of discount of not more than three months, with the proviso that paper issued or drawn for agricultural purposes or based on live stock may have a maturity as long as six months at the time of rediscount, and banks may be permitted to rediscount paper of that description up to a certain percentage of their total resources, to be determined and fixed by the Federal Reserve Board.

When Congress uses the language "a certain percentage" it does not mean all. I think it is clearly contrary to law for the Federal reserve banks to devote their entire resources to discounting six months' agricultural paper. But the law says that they may discount a certain percentage of their resources in such paper, that percentage to be determined and fixed by the Federal Reserve Board.

More than five years ago the Federal Reserve Board fixed that percentage at 99 per cent. We went as far as we could.

Senator GLASS. That is all six months paper?

Mr. HARDING. That is six-months paper. If the Federal Reserve Board had been unfriendly to agriculture, as has been so frequently charged, it could very easily have determined on a much smaller percentage.

The CHAIRMAN. What will that make the full term of the paper?

Mr. HARDING. Six months.

The CHAIRMAN. Six months?

Mr. HARDING. Yes. I want you to bear in mind also that in the agricultural districts the nonmember banks are in the majority. A Federal reserve bank can discount paper only upon the indorsement of a member bank. The nonmember banks get their accommodations from member banks in the larger cities and these member banks in turn rediscount with the Federal reserve banks. So that non-member banks get indirectly very large accommodation from the Federal reserve banks without doing anything directly themselves to strengthen the reserves of the Federal reserve banks, and they are accommodated and their customers are, just the same.

I want to call your attention to another point. In classifying paper our system of bookkeeping describes agricultural or live-stock paper as all paper which has maturity beyond 90 days up to six months. It is very clear that all paper that is held by Federal reserve banks which has a maturity at the time of discount of longer than 90 days must necessarily be agricultural or live-stock paper, because otherwise the Federal reserve bank could not take it.

Our figures relating to agricultural and live-stock paper refer only to paper held by Federal reserve banks which has a maturity longer than 90 days. But it is a fact that there is a vast volume of paper discounted by Federal reserve banks which matures in less time than 90 days which is just as much agricultural or live-stock paper as that which matures beyond 90 days; but we do not classify it as such.

But let us confine our attention to agricultural and live-stock paper.

Senator SHORTRIDGE. That is at the time of discount?

Mr. HARDING. At the time of discount.

Senator SHORTRIDGE. It will have less than three months' maturity?

Mr. HARDING. Yes; I have a table here showing the amount of agricultural and live-stock paper held by each Federal reserve bank on the last Friday of each month during the year 1920 and up to the end of June of the year 1921. I can give it to you in detail, but I presume the total concerns you more particularly.

On the 30th day of June, 1920, the 12 Federal reserve banks held agricultural paper—and that means paper maturing beyond 90 days; it does not mean any paper or any note maturing less than 90 days, but maturing from 90 days to six months—amounting to \$83,193,000. At the end of July, 1920, agricultural paper held by the Federal reserve banks, maturing beyond 90 days, was \$106,611,000. At the end of August, \$117,050,000; at the end of September, \$120,998,000; the end of October, \$131,528,000; the end of December, \$136,315,000; the end of January, 1921, \$140,815,000; the end of February, \$136,679,000.

Bear in mind that January and February represent months when normally there ought to be great liquidation, and yet the liquidation was negligible. It was only \$2,300,000 from the high point in January, a reduction from January to the end of February of \$2,300,000.

At the end of March, 1921, \$140,987,000; the end of April, \$149,223,000; the end of May, \$152,748,000, and at the end of June, \$157,874,000.

So that on the 30th day of June of this year they had nearly twice as much agricultural paper maturing beyond 90 days as they had at the end of June of the previous year.

Senator GLASS. Instead of deflating, as some politicians charge, you inflated from \$83,000,000 a year ago to \$157,000,000 this year?

Mr. HARDING. Yes; while there has been a decrease of \$138,000,000, which has all been in commercial paper, there has been a great increase in agricultural and live-stock paper.

The CHAIRMAN. Have you that information by districts?

Mr. HARDING. Yes; we are considering only live stock and agricultural paper.

The CHAIRMAN. I wanted to ask you if you had the information for the Iowa district?

Mr. HARDING. I have not the figures for Iowa but I have them for the Chicago district, and that includes Iowa. At the end of June, 1920, the Chicago bank had agricultural paper maturing beyond 90 days amounting to \$27,706,000, and at the end of June, 1921, \$53,866,000.

Senator GLASS. In other words, it had extended almost two times?

Mr. HARDING. Yes, sir. Let us take Richmond. At the end of June, 1920, they had agricultural paper maturing beyond 90 days to the amount of \$4,439,000, and at the end of June, 1921, they had \$11,109,000.

Let us take Atlanta, which covers the State of Georgia. At the end of June, 1920, they had \$5,412,000, and at the end of June, 1921, they had \$12,238,000.

The CHAIRMAN. Have you the Alabama district?

Mr. HARDING. Yes; I have just read that.

The CHAIRMAN. Was that the Alabama district?

Mr. HARDING. Yes. That is where we were accused of exercising all kinds of drastic coercion.

Senator SHORTRIDGE. That takes in what territory?

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Mr. HARDING. Alabama, Georgia, and all that cotton district. The Federal reserve bank at Atlanta, which started out on January 30, 1920, with only \$608,000 of agricultural paper in its portfolio, paper maturing longer than 90 days, as I said, by the end of June, 1920, had \$5,412,000. That is when cotton was worth 40 cents a pound and they did not sell. At the end of July the agricultural paper had increased to \$10,927,000; the end of August, \$15,044,000; the end of September, \$15,549,000; the end of October, \$17,050,000; the end of November, \$17,844,000. There was no reduction in that class of paper at all until during the month of December, when it fell to \$15,497,000. Of course, there must have been some sales of cotton in a region which raised over 3,000,000 bales of cotton.

Senator GLASS. It looks like you already have complied with the request of some politicians and started a printing press in the Alabama district.

Mr. HARDING. We did.

Senator SHORTRIDGE. At the beginning of that period what was the amount, the last one referred to?

Mr. HARDING. It began with the 30th of January, 1920, at \$608,000, and at the end of November, 1920, it was \$17,844,000. And yet we are charged with oppressing the farmer and forcing the sale of cotton.

Senator GLASS. It would have been a blessed good thing if you had forced the sale of cotton for some of the farmers themselves.

Mr. HARDING. Yes.

Senator GLASS. Then they could have gotten all the way from 30 to 40 cents a pound, but now they can not get but 8.

Mr. HARDING. Some of the very people who are attacking the Federal Reserve Board were foremost in advising the farmer to hold.

Senator GLASS. Of course, and they are responsible for the loss of hundreds of millions of dollars to the farmers.

Mr. HARDING. Yes. Let us take some figures on live-stock paper. All the banks combined on the 30th of January, 1920, had live-stock paper maturing longer than 90 days amounting to \$33,693,000. At the end of June, 1920, it amounted to \$84,845,000, and at the end of June, 1921, \$76,258,000.

Now, for the combined totals. At the end of June, 1920, agricultural paper maturing beyond 90 days was \$83,193,000 and live-stock paper maturing beyond 90 days, \$84,845,000, making a total of about \$178,000,000, in round figures.

At the end of June, 1921, agricultural paper maturing beyond 90 days amounted to \$157,874,000, and live-stock paper \$76,258,000, or a total of \$234,000,000.

Senator SHORTRIDGE. That is agricultural and live-stock paper combined?

Mr. HARDING. Yes. Gentlemen, I want to submit one very significant fact. That is, that we have not a central bank in this country. The Federal Reserve Board does not make a single loan. Our loan powers are defined by section 13 of the Federal reserve act, where we are given the power to define eligible paper in accordance with the terms of that section. And again, in section 11 of the Federal reserve act, where we may permit one Federal reserve bank to rediscount for another Federal reserve bank, and upon the affirmative vote of five members of the board, may require one Federal reserve bank to rediscount for another Federal reserve bank.

All loans must be made primarily by a member bank. A Federal reserve bank can not extend one dollar's worth of assistance to anybody unless it goes first to a member bank. A member bank can offer paper for rediscount.

Senator GLASS. And the law requires, Governor, as I recall, that on the board of directors of the regional bank the agricultural interests must be represented?

Mr. HARDING. Three members of each board must, at the time of their election, "be actively engaged in their district in commerce, agriculture, or some other industrial pursuit."

Senator SHORTRIDGE. What do your figures show with respect to the Pacific coast?

Mr. HARDING. San Francisco, which covers, as you know, in area nearly a third of the United States, takes in the States of Idaho, California, Washington, Oregon, Nevada, Utah, and part of Arizona, on the 30th of January, 1920, had agricultural paper amounting to \$1,594,000; on the 30th of June, 1921, \$18,622,000. Live stock, as of January 30, 1920, \$5,633,000; and on the 30th of June, 1921, \$14,633,000.

Taking the system as a whole, the total loans and discounts and invested assets of the Federal reserve banks on the 15th of January, 1920, were, in round numbers, \$3,000,000,000, having increased from \$2,350,000,000 on the 19th of September, 1919. On the 5th of November, 1920, without any reduction, but a steady increase, the total loans and invested assets of the Federal reserve bank had risen to \$3,400,000,000.

Federal reserve notes in circulation increased from the 15th of January, 1920, from \$2,800,000,000 in round numbers, to \$3,400,000,000 on the 24th of December, 1920.

So that all during this period when we had these drastic price reactions, when silk fell and wool fell and cotton fell, all that time the invested assets and loans, and the currency of Federal reserve banks was increasing, while prices began to fall the middle of May.

There was an increase of \$400,000,000 in Federal reserve bank credits, and \$600,000,000 in Federal reserve bank currency, a total expansion of \$1,000,000,000, during all this time when these reactions took place, and when the Federal Reserve Board is accused of having created this condition by a drastic contraction of credits, and a deflation of currency. These are the facts.

The reaction that has taken place since demonstrates the elastic quality of the Federal reserve note. The Federal reserve note issue, as I have said before, on the 24th of December, 1920 was \$3-400,000,000. That issue is now down to \$2,603,000,000, which, by the way, is still \$100,000,000 higher than it was on the 1st of August, 1919 when the boom times were on. And yet I heard a man when I was in Texas say that he thought the matter had been badly handled, that Federal reserve currency had been called in too rapidly. Now, there is nobody who calls in Federal reserve currency.

Senator GLASS. They can not.

Mr. HARDING. They can not. It is an elastic currency. It is based on the transactions of individuals with member banks and their discounts with Federal reserve banks. When business is brisk, when crops are moving, when pay rolls are active and currency is needed the banks rediscount their paper and call for notes

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and put them in circulation. They kept on for many months, and it was a constant advance in circulation. The Senate of the United States was disturbed by the situation in 1919. The committee wrote us a letter about it to which we replied.

Senator GLASS. Which comes nearer being an order of deflation than anything the board has done at all.

Mr. HARDING. On the 24th of December, 1920, the circulation reached the peak. Prices in the meantime had fallen off in spite of increased circulation, business had slowed down. What was the result? The man who had been carrying a lot of money around in his pocket began to dig down to pay his bills. His wages probably had been curtailed. Maybe the factory he was working for had discharged some men. Such money began to get into the hands of the retail merchants, and the retail merchants deposited that money with the banks. The banks not having the same demand for currency for pay rolls and crop moving, which they had, would send the money to the Federal reserve bank and say, "Put it to our credit and charge our note due on such a date to our account." The Federal reserve bank not having any use for the currency transfers these notes to the Federal reserve agent, and takes down the collateral it had with the Federal reserve agent. These notes have not been destroyed. They are still available to be put in circulation when the public calls for them. There is no order of deflation anywhere. It is only the economic reaction of the people themselves.

It demonstrates the elastic character of the Federal reserve note. For a long time people would say "Yes, the Federal reserve note is elastic but it is elastic in only one direction. It keeps on expanding and expanding until you reach the breaking point." The events of the last six months have shown that the Federal reserve note can automatically reduce itself. It is elastic in two directions, like a rubber band; you reduce the tension and it relaxes.

The CHAIRMAN. Do you classify your loans? You speak of agricultural and live stock paper. Is it all classified? Have you commercial paper?

Mr. HARDING. We count as commercial paper all the holdings of the Federal reserve bank which mature in less than 90 days at the time of discount, so that strictly speaking a large amount of that is for agricultural purposes.

Senator SHORTRIDGE. What do the figures show as to what you term strictly commercial paper?

Senator GLASS. They show a falling off of \$138,000,000, I think, all told, throughout the United States. Was not that it, Governor?

Mr. HARDING. \$138,000,000, yes, sir; throughout the United States. That was accounted for in the three cities of New York, Chicago, and Boston.

There has been a great deal said about transactions in the city of New York. On July 9, 1920, the Federal reserve bank of New York had total bills discounted and bought, amounting to \$1,001,864,000. On July 6, 1921, total bills held at the Federal reserve bank was \$461,585,000, a reduction of \$540,279,000.

The CHAIRMAN. I do not want to interrupt the trend of your statement, Governor, but I want to find this out. Take the woolen mill man in my State, who has to borrow during the period of production, when he is weaving his goods. That is commercial paper, is it not?

Mr. HARDING. Certainly; yes.

The CHAIRMAN. The man that goes out and borrows on the stock exchange, on call, on securities: That is commercial paper, is it not, so called?

Senator GLASS. No; that is speculative paper.

The CHAIRMAN. Do you classify it as speculative and commercial? Is there a classification of that kind?

Mr. HARDING. The Federal reserve bank is not allowed to take speculative paper. The law says that paper given for trading in stocks or investments is not eligible, except notes and bonds of the United States.

The CHAIRMAN. In other words, that is not rediscounted?

Mr. HARDING. That is right.

The CHAIRMAN. What is the total amount of commercial loans that the Federal reserve banks have now, and what is the total amount of agricultural loans? I want to get the comparison.

Mr. HARDING. All right.

Senator GLASS. You can get the total amount of agricultural paper in excess of 90 days maturity, but there is a vast deal of that 90 days paper which is agricultural paper.

The CHAIRMAN. I understand.

Mr. HARDING. I can give you this figure. Total bills on hand at all Federal reserve banks, on July 6, 1921, amounted to \$1,832,499,000, as against \$2,934,184,000 on July 9, 1920, a decrease of \$1,101,685,000. The detail of this decrease is as follows: On paper secured by Government obligations, \$621,973,000 (which can be accounted for in part by Government redemptions of bonds and treasury certificates and private purchases for investment account); in bills bought in the open market, \$341,455,000.

The total of agricultural, commercial, and live stock paper on hand, rediscounted for member banks, on July 6, 1921, was \$1,126,986,000, as against a total of \$1,265,243,000 on July 9, 1920, a decrease of only \$138,257,000, which is more than accounted for by the decrease in the holdings of paper of this kind by the Federal reserve banks of Boston, New York, and Chicago.

The Federal Reserve Board has made no suggestion whatever that any Federal reserve bank should undertake to force farmers to sell their cotton before the new crop comes in, and telegraphic inquiry made of the Federal reserve banks in the cotton-producing districts shows that no such restrictions have been made by the Federal reserve banks.

Senator GLASS. On the contrary I have in my possession a communication from the governor of a Federal reserve bank in the South, showing that where member banks have undertaken to curtail their agricultural credits and ascribed their action to the refusal of the Federal reserve bank of that region to accommodate them, this governor of the Federal reserve bank held that that was not true, and that the bank did not hold any such position.

Mr. HARDING. Gentlemen, the board submits that it has given absolutely fair treatment to the agricultural interests. If we can be criticized at all we might be criticized that we have been too lenient. We have not met the views of certain extremists who demanded that the Federal reserve banks should back the producers until, for instance, cotton went to 40 cents a pound and wheat went to \$3 a

bushel, and that we announce our position accordingly. That would be absurd for a sensible board to issue a statement of that sort. You certainly would not want the Federal reserve banks to be in the position of the Cuban banks to-day, when they tried to sustain the value of sugar, or in the position of the Philippine bank.

I want now to read part of an editorial from Wallace's Farmer, in its issue of July 8, 1921, which publication is under the editorial and business management of Henry C. Wallace and John P. Wallace:

We wish to offer a further constructive suggestion as to the Federal reserve system. At the present time 40 per cent cash reserves are required against Federal reserve notes—

I call attention to the fact that the last statement of the Federal reserve banks shows cash reserve against notes and deposits of over 60 per cent, at the time this editorial was written. He says:

We wish to offer a further constructive suggestion as to the Federal reserve system. At the present time 40 per cent cash reserves are required against Federal reserve notes and 35 per cent against deposits in the Federal reserve system. These requirements are too high. They should be reduced to 30 per cent. True it is that at the present time the reserves amount to nearly 60 per cent. But this situation which the bankers gloat over as indicating soundness was brought about on the one hand by imports of \$30,000,000 of gold from foreign countries, and on the other hand by a decrease in the deposits with the system which was a direct result of the slowing up of business.

The decrease of deposits of the Federal reserve system has not been material, about \$180,000,000. The Federal reserve deposits are only about \$180,000,000 less now than they were this time a year ago. That indicates the deposits of the member banks have not decreased so very alarmingly.

We don't advocate continuous inflation. We do think, however, that a sufficient degree of inflation should be allowed to maintain prices on a level at least 60 per cent above the pre war level.

The Federal Reserve Board takes the view that in the matter of note issues it has been intrusted by Congress with a very grave responsibility. We do not believe that in a mere effort to maintain prices or enhance prices, we should permit a policy, unless by a direct mandate of Congress, that would impair the soundness of the currency of this country.

The United States maintained itself on a gold basis during the war. It maintained itself on a gold basis after the war. It removed all restrictions on the export of gold on the 26th of June, 1919. It opened a free gold market in this country. Everybody all over the world that had an American dollar balance could get that balance in gold if he wanted to. We take that position to-day.

If a policy is to be adopted merely for the purpose of enhancing prices by the artificial inflation of credit or currency, we submit that is a policy to be determined by Congress itself, as the representative of the sovereign power, and not by a mere board.

Senator GLASS. Let me ask you this question: How could Congress inflate the Federal reserve currency? How could the board inflate the Federal reserve currency, with or without a mandate from Congress? You can not issue a dollar of Federal reserve currency except upon application of a bank.

Mr. HARDING. The only way they could do it, Mr. Chairman, would be for the board to use any influence it might possess with the directors of the Federal reserve banks. There are nine directors,

three appointed by the Federal Reserve Board and six elected by member banks. They are divided in groups, large-size banks, middle-size banks, and small banks. Of these six directors elected by Federal reserve banks, three are class A directors and are representatives of the banks. They may be bank officials or bank directors. Three are representatives of business and agriculture. They may be stockholders in the banks but must not be officials or directors of banks. Class C directors, who represent the Government and the public, must not be either stockholders or directors of banks.

The only way the Federal Reserve Board could bring about an inflation of currency would be to use its influence upon the directors of Federal reserve banks, to tell them to go ahead and discount any paper which is offered, without regard to the solvency of the paper, and its desirability. In other words, to rediscount fast and loose.

If we did that we would have the Federal reserve banks in the position of the Philippine banks and the Cuban banks, in a short time.

Senator GLASS. Not only that, but that is to assume that the directors of the member banks of the United States have so little prudence—

Mr. HARDING. Absolutely.

Senator GLASS. And so little banking instinct, that they would agree to fill up their portfolios with this worthless paper.

Mr. HARDING. Yes. It will surprise you probably to know that 40 per cent of all member banks in the Federal reserve system are not rediscounting to any of the Federal reserve banks now. About one-third of them rediscount very heavily, some of them beyond the bounds of prudence. They have been actuated probably by the opportunities of their customers, and they have been actuated by the profits in rediscount transactions.

For instance, in the San Francisco district the rediscount rate is 6 per cent. In the State of Idaho the contract rate is 12 per cent. A member bank in the State of Idaho can loan money legally to a customer at 12 per cent, and turn around and discount that paper at the Federal reserve bank at 6 per cent, and make a profit of 100 per cent.

Senator GLASS. In other words it is a subsidy to the bank?

Mr. HARDING. Yes. That is one great evil with which we have to contend, unfortunately, which they have not in England. The Bank of England does not rediscount paper. It merely buys bills.

Senator GLASS. Governor, let me ask you this: Why does not the board exercise the discretion with which it is clothed by the text of the law, and which it was intended it should exercise; and in those States where the legal and contract rate is so high as to involve this subsidy to rediscount operations, why does not the board exercise its discretion and raise the rediscount rate to those people?

Mr. HARDING. We did, you know. For a while last summer we instituted that progressive rate which Congress authorized, to cover that very situation; but there was such a tremendous clamor against anything of that sort (any bank that calls a loan now or asks for additional collateral is held up as an enemy to the public) that we yielded to the wishes of the directors of the Federal reserve banks who tell us they think a moderate rate ought to be established, and

that they will be careful and turn down paper which is no good, and protect themselves in that way.

The CHAIRMAN. Have there not been a great many abuses by the New York banks in charging 7 or 8 per cent? Have they charged an excessive interest?

Mr. HARDING. Some of the New York banks loaned money on stock exchange collateral, loaned it on the board, as they call it, at very high rates, in the fall of 1919, 25 and 30 per cent. Since January, 1920, when the rates went up to 20 per cent, for a day or two, they have ruled about 7 per cent maximum. Call money has ruled recently between 5 and 6 per cent.

You know the laws of the State of New York permit transactions of that sort.

Senator GLASS. And this board, as I understand the Federal reserve statute, is not charged with the duty—

Mr. HARDING. Not at all.

Senator GLASS. Or the authority to regulate a thing of that sort?

Mr. HARDING. No. The Comptroller of the Currency, who was very keen about holding banks down and not permitting them to charge usury, was absolutely powerless to do anything in that New York situation.

The law respecting interest rates to be charged by national banks is this, that the national bank may charge such rate of interest as is lawful under the laws of the State in which it is established, and if no rate of interest is established then the legal rate that a national bank may charge is 7 per cent. New York has a legal interest rate of 6 per cent, except that as to collateral paper of \$5,000 or more, any rate may be charged.

The CHAIRMAN. That is what is known as the call money market?

Mr. HARDING. The Federal Reserve Board has no power to regulate call money rates. It has been suggested that the Federal Reserve Board absolutely refuse to rediscount any paper for banks that charged over a certain rate of interest; but there is nothing in the law to permit that. The Federal reserve act says that the Federal reserve bank shall receive applications for rediscount of eligible paper. You might just as well say that if the president of a bank violates some municipal ordinance and commits a nuisance, the Federal Reserve Board should shut off his bank from all rediscount accommodations.

Senator SHORTRIDGE. The result is, you have no jurisdiction over a matter of that kind?

Mr. HARDING. That is true. An inquiry was made in the Senate in 1920, and we made a full report to the Senate on it.

I would like to submit also, if I may, an editorial from the Atlanta Constitution of July 14, 1921, published in the State of Georgia, which is one of the hotbeds of dissatisfaction. It is an editorial commanding the Federal reserve system. I will read parts of the editorial, if I may.

(The editorials referred to are here printed in full, as follows:)

THE FEDERAL RESERVE.

There has been too much political demagoguery indulged in lately at the expense of the Federal Reserve banking system of this country.

A deflation in farm product values, created absolutely upon the law of supply and demand because this Nation, still technically at war, had her products practically

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excluded from European markets, has been the incentive for an attack on the reserve system, or its administration.

It is easy to inflame the uninformed about any kind of a banking system, particularly in a period of financial depression.

* * * * *

Except to further appeal to the prejudices and passions of that great element in the rural South not familiar with the system, why these attacks?

The accusers say the reserve system has not carried along agricultural products, and does not renew agricultural paper.

That complaint has not one iota of truth as a base.

The fact is the reserve banks in the Atlanta, Richmond, and St. Louis districts, covering the cotton belt to illustrate, have carried cotton paper as long as 18 months; indeed, the paper based on the 1919 crop was largely carried through the harvesting and marketing periods of the 1920 crop.

The same thing has been true of paper based on wheat and other staple commodities.

These facts are easily verified.

* * * * *

The Federal reserve bank in the Atlanta district is carrying cotton to-day at more than its value. The system is carrying other farm products, including live stock, throughout the country, at values more than the security will bring in the markets; and in addition to this it has thrown its strong arms around country and city banks of the entire country and kept them functioning during all of this deflation, following the Nation's unsettled foreign relations, the result being that business enterprises everywhere, and particularly in the agricultural States, have been enabled to weather the storm until now the clouds are passing.

Complaint is made that the reserve system has favored the city banks. That is untrue.

At the close of business June 30, 1920, the Federal reserve bank in Atlanta had loaned to city banks of the district \$27,435,423.85, and at the close of business June 30, 1921, it had reduced those loans to \$18,595,643.45.

On the contrary, at the close of business June 30, 1920, the Atlanta reserve bank had loaned to country banks \$6,876,303.22, and at the close of business June 30, 1921, it had increased those loans to \$16,776,766.84.

In the fiscal year 1920-21 just finished, the Atlanta reserve bank called in nearly \$10,000,000 from its city bank loans and placed that money upon the paper, mostly agricultural, of the country banks.

The percentage of decrease in Federal reserve loans to city banks in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee, during the fiscal year just closed, was 37 $\frac{1}{2}$ per cent.

The percentage of increase in Federal reserve loans to country banks, in the same States, during the same period, was 75.95 per cent.

There is no argument left when these figures are studied.

Complaint has been made that the system instituted a progressive rate of interest. Some of the districts did for a time, in keeping with local conditions, and others did not. Wise or not, all the progressive rates have been discontinued.

The Richmond bank, to illustrate, never had a progressive rate, and what resulted? It borrowed several millions of dollars at 7 per cent and reloaned to its members at 6 per cent. That is a fact easily verified.

It illustrates two things, not only the inestimable value to the country the Federal reserve system is, as a whole, but the condition this country would have been up against during the recent storm had it not been for this Government financial agency.

Think of the Federal reserve system, with all of its resources, and with the Treasury of the Government behind it, being forced to pay 7 per cent for money to reloan at 6 per cent!

* * * * *

The Federal reserve system has saved the country from financial collapse, and it ill behooves any man who has the interest of the country earnestly at heart to attack it.

If there is fault in any way with the administration of the system, Congress should remove that fault.

If the maximum interest rate should be lowered—and with its accrued profits reserve that seems probable—then legislate to that end.

But to destroy the system, or impair its usefulness by an appeal to cheap political demagoguery, would be compounded folly.

The CHAIRMAN. Governor, I do not know whether this is a practical question, but it is asked for information. The charge is made

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that commercial business is exhausting the accommodations to the farmer; that the Federal reserve encourages commercial paper as against agricultural paper, which is refuted entirely by your figures. But take your total amount of loans and classify that proportion which you loan as commercial paper and that proportion which you loan as agricultural paper, then estimate the business of the country, of the industries, and how much is commercial and how much is agriculture? What proportion does the loans to agriculture bear to the relation of the agricultural industry to the commercial industry? How does that comparison work out?

Mr. HARDING. The figures I have submitted indicate that about 20 per cent of all loans held by Federal reserve banks are agricultural and live-stock loans. It must be more than that, but we can account for 20 per cent.

Senator GLASS. More than that.

Mr. HARDING. And the trend is this, that while there has been a reduction in the total loans by Federal reserve banks of \$1,101,000,000 in the last 12 months, there has been no reduction at all in what we can trace as being agricultural and live-stock loans; on the contrary they have doubled.

Senator SHORTRIDGE. Then the reduction stated is to be charged over to the commercial industry?

Mr. HARDING. To commercial enterprises, bankers' acceptances, and notes secured by Government obligations.

The CHAIRMAN. How much of the business of the country is agriculture and how much of it is commercial, manufacturing, and industrial?

Mr. HARDING. The banking business of the country is very largely commercial. That is shown by our returns from the cities. Take the New York Clearing House. Their clearings are greater than those of all the rest of the country combined.

We have a list of member banks, about 800 in all, that send us a statement every week of their debits and individual accounts showing how much they have charged, the sum total of customers' checks they have charged up. Those debits are much heavier in the larger cities than in the smaller cities, indicating that of the banking business that is done most of it is done by interests other than agriculture.

So it seems that in proportion to the banking business done the accommodation by the Federal reserve system to the farmer has gotten away beyond his percentage of deposits.

The CHAIRMAN. That is the answer.

Senator SHORTRIDGE. To make it plain to the man in the street, your table there, your itemized statement, shows the amount of outstanding commercial paper; also the outstanding agricultural paper?

Mr. HARDING. Yes, sir.

Senator SHORTRIDGE. Also the increase or decrease of those items respectively, does it?

Senator GLASS. Yes. It shows it approximately, with the reservation that included in the commercial paper is a large proportion of agricultural paper of 90 days' maturity or less.

Mr. HARDING. I think I have already stated that a great many of these discounts to large city banks are really for the benefit of non-banks in agricultural districts. For instance at one time, and right now, the banks in the Twin Cities, St. Paul, and Minneapolis, have

over \$50,000,000 rediscounted with the Federal Reserve Bank of Minneapolis. Mr. Mitchell, who was formerly a banker there, can testify that those loans are made not for the accommodation of local interests but they are made for the accommodation of country banks back in the Dakotas and Montana and in Minnesota and Wisconsin.

So that a great many of the loans to the banks in the cities which would be classed offhand as ordinary commercial loans, or loans for the benefit of business interests, are really agricultural loans. There are a great many nonmember banks that look to their city banks for their accommodations.

The CHAIRMAN. Governor, we have had, of course, a good deal of illuminating information which bears directly on the whole controversy, and we are very glad to have it on the record; but to come directly to the bill that we are considering, one of the reasons given for asking that a representative of the agricultural interests be placed on the Federal Reserve Board is the psychological effect that it will have upon the depressed conditions of the farmers in the West.

The statement was made yesterday that conditions were very distressing and if they could feel that the farmers were represented by some one who was sympathetic with the agricultural interests, on the Federal Reserve Board, that it would help very largely the present conditions out there.

Mr. HARDING. Might they not be disappointed if they had him? What could a representative of agriculture do on the Federal Reserve Board any more than has been done already? If he wanted to do anything of a very radical nature, the rest of the members could outvote him. He would be powerless to accomplish anything without their cooperation.

And in the meanwhile, in enacting this bill, Congress would be committing itself to the principle of class representation and dividing this country up into blocks and classes. You would have a demand from the other interests—automobile, and so on.

The CHAIRMAN. Your opposition, then, is based on the ground that to appoint a member to represent especially the agricultural interests would be class legislation?

Mr. HARDING. Yes, and because the demand for this legislation has grown out of a misconception of the facts.

The CHAIRMAN. And contrary to the spirit of the act?

Mr. HARDING. I think so. You have the farm-loan act. Senator Glass can tell you that when the Federal reserve act was under consideration there was a good deal of pressure brought to bear on them by the farming interests, and they said, "Wait a while and we will do something separate for the farmer," and they organized a farm-loan system.

Senator SHORTRIDGE. You are, of course, well acquainted with the members of the board. Expressing your own views and theirs, can we assume that the board as constituted is sympathetic with the agricultural interests of the country?

Mr. HARDING. Absolutely and entirely.

Senator SHORTRIDGE. You realize the importance of that great industry?

Mr. HARDING. We do.

Senator SHORTRIDGE. And within the law you are endeavoring to serve it?

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Mr. HARDING. We are, and we think an analysis of the figures will, in the mind of any fair-minded man, bear us out that we have done our best to serve that industry.

Senator SHORTRIDGE. Have you any suggestions to make with respect to any change in the existing Federal reserve act, whereby in your opinion you could better serve any class of industry?

Mr. HARDING. The only suggestion we have to make was transmitted to Senator Frelinghuysen yesterday. We sent up a proposed bill, which we felt would be beneficial in the present circumstances.

To rediscount the collateral paper for member banks where that paper is secured by paper which is eligible for discount, it extends this 15-day paper used mainly in Government bond transactions.

The CHAIRMAN. You mean the bill I introduced yesterday?

Mr. HARDING. Yes.

The CHAIRMAN. I did not understand the bill. I talked to Senator Glass about it, and he explained it to me. Do you consider that good banking? Do you approve of it?

Mr. HARDING. In the present circumstances I do, and I will tell you why. You read the bill, did you not, Senator?

Senator GLASS. Yes; I had not analyzed it when I talked to the chairman.

Mr. HARDING. I don't know whether you want this to go in the record or not.

Senator GLASS. I think not.

(Informal discussion followed, which was not recorded.)

Mr. J. R. MITCHELL (member Federal Reserve Board). I think it is quite necessary that the bill to which reference has just been made be passed. It does not do anything more than make a note which is secured by eligible paper for at least 100 per cent of the face of it eligible as collateral for rediscount in the Federal reserve bank.

It seems rather ridiculous when you analyze it that certain notes, farmers' notes for example, are eligible for rediscount that are secured by mortgages on live stock and for longer than six months maturity—those notes are eligible for rediscount; but if they are put up as collateral to a note, and the note they are given to secure is offered for rediscount, the Federal reserve bank to-day can not accept that note. This bill simply makes eligible for rediscount notes which are secured by paper that is absolutely eligible. I think it is good banking. I can not see any criticism that could possibly be raised.

Senator SHORTRIDGE. Your plan would make eligible certain paper which is not now eligible; is that right?

Mr. MITCHELL. No.

Mr. HARDING. It would make this paper, which is eligible, available as collateral in another form.

The CHAIRMAN. Who does that help, the country banker?

Mr. HARDING. It is supposed to help the producer.

Senator SHORTRIDGE. To make it plain to me, and perhaps to others, let us assume out of the present situation the evil, if there be any. What is your remedy?

Mr. MITCHELL. It simply facilitates, this bill will simply facilitate, the handling of live stock and agricultural paper. For instance, we have a cattle loan pool. A practical, simple, and businesslike way to handle that would be to have a corporation formed, which corpora-

tion would issue its notes to be secured by these cattle loans, which are six months' paper, and give those notes to the banks that are in this pool.

But those notes to-day are not eligible for rediscount under the law. Consequently we have to work it around another way, in a complicated sort of way, at least in a way unsatisfactory to some extent to the banks that are in this pool.

This bill if it passes would make a six months' note of a corporation secured by eligible live stock loan paper eligible for rediscount with the Federal reserve bank.

Senator SHORTRIDGE. Which is not now under the law?

Mr. MITCHELL. It is not eligible to-day, but if this bill becomes a law, it would be.

Mr. HARDING. The principal advantage of this bill—and Secretary Mellon agrees with me about it; I having talked the matter over with him—is that it enables Federal reserve banks to do some additional financing safely for member banks which already are pretty badly extended.

Senator GLASS. Let me ask you, Governor, is it particularly intended now to take care of paper of this cattle pool?

Mr. HARDING. We have already arranged for that. That pool has been gotten up now on a basis where the paper will be given in such form as to be eligible.

The CHAIRMAN. It is to relieve the cotton situation really.

Mr. HARDING. It will be a very great help in the cotton situation, and in the situation in Iowa. One great trouble in Iowa was that in 1919 they went wild on farm lands. They commenced trading in it like boom towns trading in corner lots. Finally the boom subsided, and many banks were all loaded up with this long-time paper. It is not eligible, they can not do anything with it except work it out by degrees.

The CHAIRMAN. That will help the Iowa situation?

Mr. HARDING. Very much.

Senator SHORTRIDGE. Not unlike the tulip craze in Belgium.

Mr. HARDING. Yes.

The CHAIRMAN. In view of the fact that we have been discussing this bill which I introduced yesterday, I will say that I want to appoint a subcommittee to consider it, and I will ask Senators Shortridge, Weller, and Glass to look it over and handle it.

Is there anything more, Governor, that you wish to add at this time?

Mr. HARDING. I do not know of anything else.

The CHAIRMAN. Thank you very much. Have you anything, Mr. Mitchell.

Mr. MITCHELL. I have nothing to add, Mr. Chairman.

The CHAIRMAN. I will ask the members of the subcommittee to wait until we have an executive session.

(By direction of the chairman, the following table is incorporated in the record.)

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September.....	5	208	107	2,916	2,033	44,560	28,197	11,462	13,928	103,426
October.....	10	147	205	2,182	3,587	44,661	32,671	14,459	11,119	109,121
November.....	5	156	112	1,126	2,615	45,137	30,593	14,715	10,698	105,246
December.....	119	158	87	1,335	1,637	36,370	32,555	16,819	12,034	103,795
1921										
January.....	27	244	36	1,535	946	23,823	20,876	18,229	13,517	88,233
February.....	35	211	29	1,618	483	22,182	26,74	18,777	14,695	83,654
March.....	9	199	5	25	1,078	607	15,381	29,190	18,935	15,683
April.....	8	5	255	75	2,075	778	16,961	26,725	18,717	81,693
May.....	4	341	5	341	98	2,330	871	16,820	24,336	15,488
June.....	8	347	117	2,688	1,184	17,746	22,832	17,054	14,559	76,719
										76,258

¹ Represents paper rediscounted for other Federal reserve banks.

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TOTAL AGRICULTURAL AND LIVE-STOCK PAPER.

	1920.		1921.
January.....	\$58,935,000	January.....	\$229,048,000
February.....	67,195,000	February.....	220,333,000
March.....	74,665,000	March.....	222,689,000
April.....	103,382,000	April.....	230,410,000
May.....	140,691,000	May.....	228,457,000
June.....	168,038,000	June.....	234,132,000
July.....	202,520,000		
August.....	216,278,000	Total.....	3,352,318,000
September.....	224,424,000		
October.....	240,649,000		
November.....	241,561,000		
December.....	246,940,000		

(Thereupon the hearing was concluded, and, after an executive session, the subcommittee adjourned.)

X